ECONOMIC STABILIZATION AIDS

HEARINGS

U.S. Congress. House, BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

EIGHTIETH CONGRESS

FIRST SESSION

ON

THE RECOMMENDATIONS OF THE PRESIDENT WITH RESPECT TO INFLATION AND PRICES AND H. J. RES. 273, JOINT RESOLUTION TO AID IN THE STABILIZATION OF COMMODITY PRICES, TO AID IN FURTHER STABILIZING THE ECONOMY OF THE UNITED STATES, AND FOR OTHER PURPOSES

NOVEMBER 25, 26, DECEMBER 1, 2, 3, 4, 8, AND 9, 1947

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ECONOMIC STABILIZATION AIDS

TUESDAY, NOVEMBER 25, 1947

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Present: Mr. Jesse P. Wolcott (chairman) presiding, and Messrs. Gamble, Smith, Kunkel, Talle, Sundstrom, McMillen, Buffett, Cole, Hull, Scott, Banta, Fletcher, Foote, Spence, Brown, Patman, Monroney, Folger, Hays, Riley, Rains, O'Toole, Buchanan, and Boggs.

The CHAIRMAN. The committee will come to order.

We have called the committee into session to discuss the recommendations of the President with respect to inflation and prices.

There are five, and possibly six, of the President's recommendations which are primarily within the jurisdiction of this committee. The other four or five either come within the jurisdiction of other committees of the House or are doubtful with respect to jurisdiction.

I think perhaps the best procedure for this committee would be to stress those matters which are purely wihin our jurisdiction, but it is expected that, as the program unfolds, we will have to discuss some of these matters which are not primarily within our jurisdiction but are incidental to those which are. So the witnesses will not be limited to the matters which are purely within our jurisdiction, if discussion of the other matters should become necessary from the standpoint of the total recommendations.

In the course of the first part of the hearings we will have several administration witnesses through whom we hope to unfold the details of the program, after which it is expected that there will be some witnesses from labor, agriculture, business, finance, and industry who will give us information on the effect of the program on those segments of our economy.

We are very pleased to have with us this morning Secretary of the Treasury Snyder, who is going to discuss one very important phase of the problem before us, having to do with Government financing, bonds, and so forth.

Mr. Secretary, we are very happy to have you proceed in any way in which you see fit to present your subject.

Secretary SNYDER. Thank you, Mr. Chairman.

I have a prepared statement. May I read it into the record?

The CHAIRMAN. You may proceed.

STATEMENT OF JOHN W. SNYDER, SECRETARY OF THE TREASURY

Secretary SNYDER. Mr. Chairman and members of the committee, I appreciate your invitation to appear before this committee to dis-

cuss certain phases of the program for the control of inflation outlined in the President's message of November 17.

It is of the utmost importance that we extend early aid to the western European countries in order to assure that people will not go hungry and cold this winter and to assure their continued participation as free nations in the world economy. It is equally necessary that this aid be extended without subjecting our economy to the strain of further inflation.

Both of these things are essential if we wish to maintain a national environment and a world environment in which peace and freedom can continue to develop. If we fall short of our goal in foreign aid, our own freedom could be threatened by external forces; and, if we fall short of our goal in controlling inflation, we will be threatened by the danger of economic collapse at home. We must avoid both dangers.

I have been invited to appear before you this morning on one phase of the anti-inflation program. As you know, testimony in support of the emergency program for European assistance has been presented by representatives of the Departments of State, Commerce, and Agriculture.

The President outlined three types of measures for the control of inflation: one, measures to relieve monetary pressures; two, measures to channel scarce goods into the most essential uses; and, three, measures to deal directly with specific high prices.

It is to the first of these measures that I will give attention, as other representatives of the administration have been invited to discuss items 2 and 3.

Anti-inflationary measures which may be taken in the monetary field are of course but a segment of the whole program, and could not, by any means, solve the problem alone. But such steps as can be taken when related to those in other fields will of course be helpful in the over-all solution.

The President is greatly disturbed in regard to price inflation, which threatens our whole economic structure, and he is convinced that the Congress is equally concerned.

The President has laid special emphasis on voluntary actions on the part of businessmen, labor leaders, farmers, and consumers to hold prices down. Intensified efforts will be continued to obtain voluntary restraint. Certain powers are necessary, however, to fortify the voluntary efforts.

The President has suggested that consideration be given to the following monetary measures: one, that consumer credit controls should be restored; two, some restaint should be placed on inflationary bank credit; three, legislation should be provided to prevent excessive speculation on the commodity exchanges; four, intensified activity in the sale of savings bonds.

The last item is the only one of those suggested which comes completely under the jurisdiction of the Treasury Department, and I shall devote my time principally to a discussion of that particular item. I shall touch but briefly upon the remaining three as they are primarily the concern of other government Departments and are being discussed by representatives of those Departments as they appear and testify.

Item 1, "restoration of consumer credit controls," will be discussed by Federal Reserve officials. I am in favor of the restoration of those controls.

The most effective types of credit control are those which strike at the individual forms of credit extension which are contributing to inflationary pressures. The most important single form of such credit extension at the present time is in consumer credit.

Total consumer credit outstanding at the end of September reached an all-time peak of $11,400,000,000. At the end of 1945 it amounted to only $6,600,000,000. Prior to December 1946 total consumer loans outstanding at any one time had never reached the $10,000,000,000 level.

This increased use of consumer credit in the present period of inflationary pressures can only add to those pressures. As we all know, the curtailment of the production of consumer goods during the war period gave rise to a tremendous deferred demand for such goods. As we all know, despite the fact that industrial production during 1947 has reached the highest level ever attained during peacetime, we have not yet been able to produce enough goods to satisfy this deferred demand. There still exist many important shortages of goods. But with production near capacity levels, purchasing power made available by consumer loans can be used only to bid up prices of consumers' goods, not to purchase more goods. It is imperative, therefore, that efforts be made to restrain the demand for scarce goods until supply approaches demand.

Money market interest rates form a small part of the total cost of consumer credit, and changes in such rates are almost powerless to limit its extension. It is necessary to cover specifically by regulation such matters as minimum down payments and the maximum periods over which payments may be spread on installment purchases of consumers' goods in order to restrain this type of inflationary credit.

In reference to the matter listed under item two, "some restraint should be placed on inflationary bank credit," this is a matter under the jurisdiction of the Board of Governors of the Federal Reserve System, which has responsibility for over-all bank credit control. However, the Treasury Department, due to its responsibility on debt management, has been actively studying this field for some time. Some of the Treasury activities in this connection cover debt management, interest rate adjustments, and study and recommendations regarding bank credit trends.

I must point out here that the Treasury must continually measure the effects of bank credit controls against the problems of debt management. The management of the public debt since the close of the war has presented a continuing problem.

The public debt reached its peak of $280,000,000,000 on February 28, 1946. During the following 10 months it was reduced over $20,000,000,000, reflecting the reduction in the cash balance in the Treasury from a wartime to a peacetime level. Almost all of the reduction in the debt during this period took place in the holdings of Government securities by commercial and Federal Reserve banks. Since the end of 1946, the debt has remained substantially constant, reflecting the approximate balance of the budget during this period. Holdings of Federal debt by commercial and Federal Reserve banks have nevertheless continued to be reduced and fell by over $6,000,000,000 in the

first 10 months of the year, with holdings by nonbank investors increasing correspondingly.

The concentration of debt reduction during 1946 on securities held by banks and the transfer of over $6,000,000,000 of debt thus far in 1947 from bank to nonbank hands have been, in large part, the consequence of the public-debt policies of the Treasury and of the restrictive credit policies of the Federal Reserve System. These policies have contributed substantially to the fight against inflation, and will be continued as long as they are appropriate. I should like to note in this connection that a sizable reduction in the public debt will be possible during the early months of 1948—during which months will occur most of the excess of Government receipts over Government expenditures predicted for the entire fiscal year.

To minimize bank credit expansion, restrictive measures have been applied to the money market by the Federal Reserve System and the Treasury. This has been reflected by a rise in interest rates and a better balance between short- and long-term rates.

The average rate on 90-day Treasury bills has increased from three-eighths of 1 percent in early July to nearly 1 percent at the present time; while the rate on 1-year Treasury certificates of indebtedness has risen from seven-eighths of 1 percent to 1⅛ percent in the same period. During this time the yield on the longest-term Treasury bonds—those issued in the Victory loan—has risen from 2.33 percent to 2.44 percent.

The entire debt-management policies of the Treasury since February 1946 have been of an antiinflationary character. First, there was the paying off of bank-held Government debt out of excess cash balances; second, there has been a payment on bank-held debt out of funds derived from (*a*) budget surplus, (*b*) trust funds, and (*c*) the sale of savings and investment bonds to the public; third, pressure on the money market with slightly higher interest rates. Through the payment and calling of maturing bonds and refunding them into short-term issues, it has been possible to create an interest pressure on the money market without an increase in the net cost of the market debt to the Government.

In making our decisions with respect to public-debt management, we must constantly weigh the restrictive effect of any proposed debt-management action against its cost in added interest burden on the taxpayer. An increase of one-half of 1 percent in the average cost of carrying the public debt for example, would mean an added burden of 1¼ billion dollars a year on the taxpayer.

At the present time, as you know, the interest cost on our public debt amounts to more than $5,000,000,000 per annum. This is a large figure and may increase in the future if a larger proportion of our debt is carried in longer-term securities requiring higher coupon rates of interest. It is, therefore, imperative that during these times of great prosperity we should continue to collect adequate revenues over and above a balanced budget to provide for a systematic reduction of the debt total. A reduction in the debt through a substantial budget surplus is the most anti-inflationary measure that can be taken in the fiscal field.

In the field of commercial bank loan credits the Treasury Department, through the Comptroller of the Currency, has been very active in

studying trends and taking steps to induce a restraint in inflationary bank loans.

A few weeks ago we had the district chief national bank examiners in for a conference, at which time the credit situation was discussed at some length. The chief examiners were instructed to have their examiners, during the course of examination of banks, counsel and caution bankers against speculative lending policies.

More recently, the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the executive committee of the National Association of Supervisors of State Banks have collectively taken steps to urge the curtailment of all loans either to individuals or businesses for speculation in real estate, commodities, or securities. In a joint statement issued this morning by these agencies all bankers are urged to confine the current extension of bank credit to the greatest extent possible under existing conditions to financing that will help production rather than increase consumer demand.

Item 3. Secretary Anderson of the Department of Agriculture will present testimony on legislation that should be provided to prevent excessive speculation on the commodity exchanges.

Item 4 makes recommendations for the intensification of activity of savings bond sales as an anti-inflationary action.

As the President said in his message of November 17:

> Another effective weapon against inflation is increased savings by the public. Every dollar that is saved instead of spent is a dollar fighting against inflation. In order to encourage additional savings, the Government should intensify its vigorous efforts to sell savings bonds.

Since the war, as an economy measure, the Treasury Department has curtailed enormously the organization of the Savings Bonds Division, and has resorted primarily to those programs for which the voluntary cooperation of individuals and businesses could be recruited. While this procedure has been eminently successful and has produced most satisfactory results in maintaining bond sales in excess of bond redemptions, it still has its limitations.

Up to now the day-to-day efforts of the Treasury savings-bond sales organization has been to maintain the popularity of the pay-roll savings plan among American workers and to sell to the American people the idea of investing regularly for their own good. This program has formed an important part of the Treasury's fiscal policy.

During the war it was obvious to people why we needed the savings-bond program. Everyone could see that the Government needed dollars—over and above taxes—to buy munitions and pay wages and subsistence for our armed forces. Each of us had someone—son, daughter, brother, sister, loved one—in service and therefore had a direct interest. And, in addition, everyone could understand that savings bonds helped to absorb inflationary dollars which were accumulating at a rapid rate because incomes were growing while goods and services available for purchase were not increasing accordingly due to the fact that war goods were using up materials and labor.

But now that the war is over many people do not understand the importance of the savings-bond program today.

The savings-bond program absorbs excessive purchasing power in the hands of individuals. This cuts down spending pressures. For this reason, emphasis is being placed—and will continue to be placed—

on the pay-roll savings plan for workers and on bond programs for individuals, and especially farmers. The important funds to obtain are the small amounts invested regularly by millions and millions of people. It is the money which is more likely to go on a spending spree that is the most important to get invested in savings. The investor we want most is the individual—the worker with good income and the farmer whose income is at a high level.

Bond sales of this character are important from a fiscal point of view even if we have a balanced budget, for they widen the ownership of the debt and provide a sounder debt structure. At the same time the sale of these savings bonds makes an important contribution to the control of inflationary pressures.

It withdraws funds in the hands of the individual from the spending stream, thus providing funds which enables the Treasury to retire bank-held debt. This, in turn, results in a reduction of the money supply in the economy.

In order to increase the sale of United States savings bonds, however, we have an intensive selling job to do.

The Treasury Department is ready to move right away on an enlarged savings-bond sales activity. But this increased sales activity will require additional funds over those earmarked for this purpose in the budget for fiscal 1948. We are therefore asking the Congress to give approval to the use of additional funds for the savings-bond program over and above those approved in the budget.

The present greatly reduced staff in Washington and in the field can be expanded immediately. With additional personnel and funds for promotion, the number of purchasers on pay-roll savings plans can be greatly increased and the sales of savings bonds materially multiplied.

Incidentally, I think that you would be interested to know that total sales of savings bonds are continuing to exceed redemptions and the volume has reached a new high—nearly $52,000,000,000. In E bonds alone there are $30,894,000,000 outstanding; this volume is today within one-quarter of 1 percent of the peak volume of E bonds outstanding at the close of the Victory Loan nearly 2 years ago. We have been able, in other words, to increase the savings-bond total and to sustain the volume of E bonds outstanding throughout this period of postwar readjustment.

This has been a tremendous accomplishment. There were those, you remember, who predicted that the termination of the war would be followed by wholesale cashing of savings bonds and the liquidation of much of the effect of the wartime savings-bond sales effort.

The truth is that this just didn't happen. The redemption record of United States savings bonds is a cause for considerable gratification for all of us. It is a tribute to the people who sold the bonds during the war and to the people who purchased them. I am confident that with the additional effort that will be provided by additional funds, good results can be obtained.

I have with me today representatives of the Treasury Savings Bonds Division who are prepared to present, with your approval, some interesting statistics in this field.

The CHAIRMAN. We are very glad to have them, Mr. Secretary.

STATEMENT OF SIDNEY TICKTON, ASSISTANT DIRECTOR, TECHNICAL STAFF, TREASURY DEPARTMENT

Mr. TICKTON. Mr. Chairman, my name is Sidney Tickton. I am an assistant director of the Technical Staff.

Mr. SMITH. Give us some of your background.

Mr. TICKTON. I have been at the Treasury Department for 13 years doing work in financial statistics, Treasury financing, public-debt management, and statistical problems relating to Treasury operations.

Mr. SMITH. Have you ever been in private business?

Mr. TICKTON. I was employed at the Detroit Bureau of Governmental Research before I came with the Government. I was with the Farm Credit Administration before I was with the Treasury.

Mr. SMITH. But you have never done anything in private life?

Mr. TICKTON. I was practicing accounting prior to working at the Detroit Bureau of Government Research.

Mr. SMITH. How long did you practice accounting?

Mr. TICKTON. For 3 years.

Mr. SMITH. Where?

Mr. TICKTON. In Detroit.

This booklet contains a statistical analysis of the savings-bond program, and in order to have the figures for the current year in their proper perspective some of the charts run back to the period prior to the war.

The first chart, on page 3 of the booklet, summarizes the entire savings program since 1939.

(The booklet referred to above is as follows:)

ANALYSIS OF THE SAVINGS BOND PROGRAM BY OFFICE OF THE SECRETARY OF TREASURY, NOVEMBER 1947

MARKET ANALYSIS OF SALES OF E BONDS SINCE BEFORE THE WAR

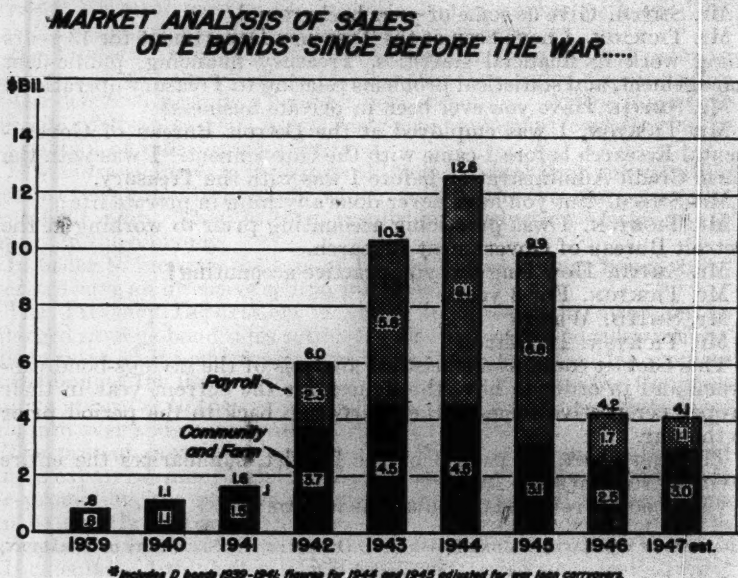
The E-bond sales picture has been relatively good since the Victory Loan closed on January 3, 1946. Sales now amount to over $4,000,000,000 a year, which is close to three times the volume of sales in the 12-month period prior to Pearl Harbor. One would expect sales to be higher in the postwar than in the prewar period, however, because the bond-buying habit has been widely spread as a result of wartime sales-promotion activities. Furthermore, income and savings are at higher levels. Nevertheless, the 1946 and 1947 sales performance is creditable.

Current sales totals are equivalent to one-third of the peak reached during 1944, a year which had three war-loan campaigns. The details of the current sales picture lead to the conclusion that much of the reduction in sales from this peak can be attributed to (1) the drop in sales pressure accompanying the severe decline in the size of the sales organization after the close of the Victory Loan; (2) the elimination of the patriotic motive for bond buying; and (3) the lowered volume of new savings since the end of the war.

An analysis of E-bond sales by markets show that 1946 and 1947 sales were good because the community and farm sales held up so well. Community and farm sales this year will be twice the pre-Pearl Harbor level. They will be only slighty down from 1945, a year with two drives. Sales in the pay-roll market on the other hand were relatively low in 1946 and 1947. Sales in this market include pay-roll deductions and extra bonds for cash purchased through employers.

Sales in the pay-roll market depend to an important extent on direct promotional activity. Management must be contacted frequently and employees urged to buy bonds through direct personal solicitation. New people have to be added to the plan continually in order to keep participation up. Otherwise labor turn-over and inertia result in substantial reductions in participation and in sales. One of the problems since the end of war financing has been that the decline in the size of our staff has made it impossible to make a sufficient number

of personal contacts with management and labor. An expanded savings-bond sales organization, which we are planning at this time, will put primary emphasis on providing more pay-roll savings contact men in the field. We think that an expanded organization can turn the trend of pay-roll savings upward and increase the sales volume considerably.



CURRENT E-BOND SALES PICTURE

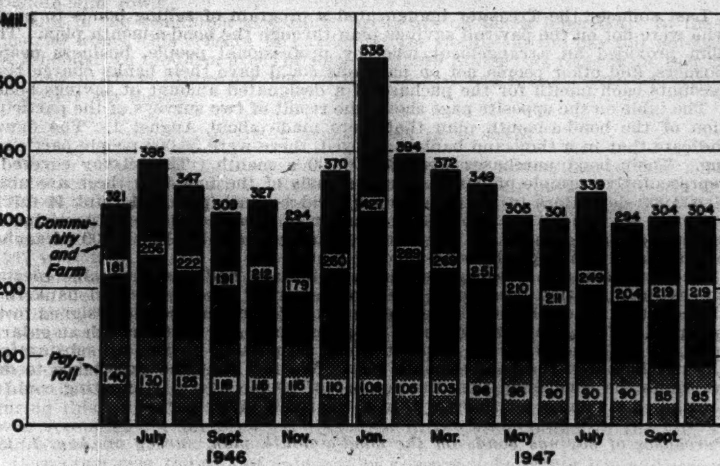
During most of the year sales of E bonds run from around $300,000,000 to $350,000,000 a month. In January, February, and March, however, sales are somewhat higher. This is due primarily to the fact that many larger investors acquired their annual limit in these months. This situation was one that was characteristic of the sales picture in the prewar period. During the war, however, the pattern changed, because these investors spread their purchases out over the various war loans.

The chart shows that substantial amounts of community and farm market have held up the monthly sales total. In early 1946 the community and farm market accounted for just over one-half of the total E sales. At the present time sales in this market represented nearly three-fourths of the total. In January and February 1947, limit buying caused the proportion of community and farm sales to run from 70 to 80 percent of the total.

The continued decline in pay-roll sales shows up emphatically in the chart. The trend has been downward every month and can be turned only by a concentration of sales activity in the pay-roll field. The decline has come about because of the reduction in the number of persons participating in the pay-roll savings plan, for which the details will be given in the next chart. The average purchase of persons participating in the pay-roll savings plan has, however, held up remarkably well. The average participant in industry is currently running at the rate of about a $25 bond a month. In the Federal Government the average purchase is somewhat greater—about five $25 bonds every 4 months.

The number of people participating in the pay-roll savings plan has declined from 10½ million in January 1946, after the close of the Victory Loan, to about 4½ million at the present time. The decline has been Nation-wide and in all types of organizations having the plan—big companies, little companies, the Federal Government, and the armed forces.

CURRENT E BOND SALES PICTURE.....



NUMBER OF PERSONS PARTICIPATING IN THE PAY-ROLL SAVINGS PLAN

An analysis of the sales in the pay-roll market shows that most of the money came from the big companies. These, together with the Federal Government, accounted for over 60 percent of the sales during the war and for about the same percent at the present time. The present job of the pay-roll savings promotion is to hold large companies on the plan, and to build up participation in these companies.

The decline in the number of people participating in the pay-roll plan in big companies is a result of fewer participants in some companies and the dropping of the plan in others. Some of the big firms have dropped the plan because of the cost of promotion and accounting. Other companies have dropped out because they wanted to keep the take-home pay as high as possible. A few dropped out because they weren't contacted by war-bond salesmen often enough after the war was over.

On the other hand, the plan has been reinstated in some companies after it was dropped because of the efforts of the employees. In other cases the sales-promotion staff persuaded the management to reinstate the plan. The experience is that only through continued promotion will it be possible to keep sales up on the pay-roll program. The experience has been that this promotion has to take the form of personal contact between the Treasury and management and labor to be successful.

Pay-roll savings participation among Federal employees as a group is greater on the average than among industrial employees as a group. The big decline in Federal employees' participation last year occurred as a result of the big reduction in Federal employment. Navy-yard workers were particularly good participants in the pay-roll savings plan.

Number of persons participating in pay-roll savings plan

[In millions]

	January 1946	July 1946	January 1947	July 1947	October 1947
Big companies	4.5	3.4	2.9	2.5	2.3
Little companies	2.8	1.9	1.6	1.4	1.3
Federal Government	1.3	.9	.7	.7	.6
Armed forces	1.9	.8	.4	.3	.3
Total	10.5	7.0	5.6	4.9	4.5

PURCHASES OF SAVINGS BONDS ON THE BOND-A-MONTH PLAN

Last summer the Treasury inaugurated a program of selling bonds to people who were not on the pay-roll savings plan through the bond-a-month plan. This plan provided an arrangement whereby professional people, business people, farmers, and other people not on pay rolls could have their banks charge their accounts each month for the puchase of a designated amount of savings bonds.

The table on the opposite page shows the result of two surveys of the participation of the bond-a-month plan that were made about August 1. The figures indicate that in a thousand banks surveyed, there were 50,000 people participating. Their bond purchases were $3,000,000 a month. The survey covered a representative sample of banks. On the basis of the fact that there are about 50,000,000 depositors in banks having a bond-a-month plan, we think it fair to estimate that there are probably a quarter of a million persons participating on the bond-a-month plan. They are acquiring probably $15,000,000 of savings bonds a month through the bond-a-month plan.

The bond-a-month program is wholly voluntary and has been able to show successful operation because of the cooperation of the commercial bankers of the country. There have only been a handful of Treasury people assigned to the program. With greater attention to the program on our part through an enlargement of the sales staff, we think it would be possible to run up substantially the purchases on the bond-a-month plan. We feel that the experience to date warrants the conclusion that the number of people now participating could be multiplied a number of times within a relatively short period.

Purchases of savings bonds on the bond-a-month plan, survey on Aug. 1, 1947

	Large banks (Treasury survey)	Small banks (A. B. A. survey)	Total
Number of banks	230	800	1,030
Number of depositors	5,000,000	5,000,000	10,000,000
Number participating	26,000	24,000	50,000
Monthly bond purchases	$1,800,000	$1,200,000	$3,000,000

DENOMINATION BREAK-DOWN OF SALES OF E BONDS SINCE BEFORE THE WAR

Sales of large-denomination bonds held up well in the period immediately after the war and showed a marked increase this year over last. Estimated sales of $1,000-denomination bonds in 1947 are exceeded only by sales during the war years. Series E bonds of $1,000 denominations go mainly to those persons in the investment market who find that the largest E bond fills a part of their portfolio requirements rather well.

It is clear from the chart that the decline in the sales total has taken place mainly in the smaller-denomination bonds. Sales of these denominations in 1947 will amount to about 1.8 billion dollars which is about one-fifth of the 1944 peak. Series-E bonds of the $10 through $200 denomination are the ones generally involved in pay-roll plans. It is to be expected, therefore, that sales of these bonds would decline as the proportion of pay-roll sales dropped.

Most of the prewar sales of savings bonds were in $1,000 denominations. In 1939 and 1940 the $1,000 denominations represented 75 percent of total sales. During the war this proportion dropped to 17 percent as the pay-roll plan spread across the country. In 1946 the amount in $1,000 denominations was 31 percent of total E sales, and this year the proportion will be about 41 percent.

E-BOND SALES COMPARISON, 1946–1947

The map on the opposite page gives a quick picture of the E-bond sales situation in the various areas of the country. Sales this year are compared with 1946. For the country as a whole the sales volume is down by 2 percent, but in the midwestern agricultural area, where most of the sales increases this year are concentrated, sales are up 24 percent.

Higher farm income and the momentum of the savings-bond buying habit developed during the war have kept sales up in this area. Some of the midwestern farm States were leaders during the war and their present performance

is still outstanding. This is particularly true in the case of North and South Dakota and Iowa.

Sales in the remaining geographic areas are off about 5-percent. In the industrial areas, this reflects, in particular, the decline in the pay-roll purchases of E bonds. In the farm areas of some Southern States this reflects the fact that incomes in these States are low on the average, and many people are earning relatively low income.

MONTHLY REDEMPTIONS OF E BONDS

Before concluding the discussion of E bonds it is interesting to take a look at the redemption situation. Redemptions reached their peaks in the winter of 1945–46. October 1945 was the highest month with redemptions of $562,000,000. The trend has been downward since, and redemptions in February 1947 of $290,000,000 were the lowest in over 2 years. Redemptions during October 1947 were $316,000,000.

During the war it was freely predicted that an avalanche of redemptions would follow the end of the war, particularly when a large volume of goods became available. The fact is that this did not happen.

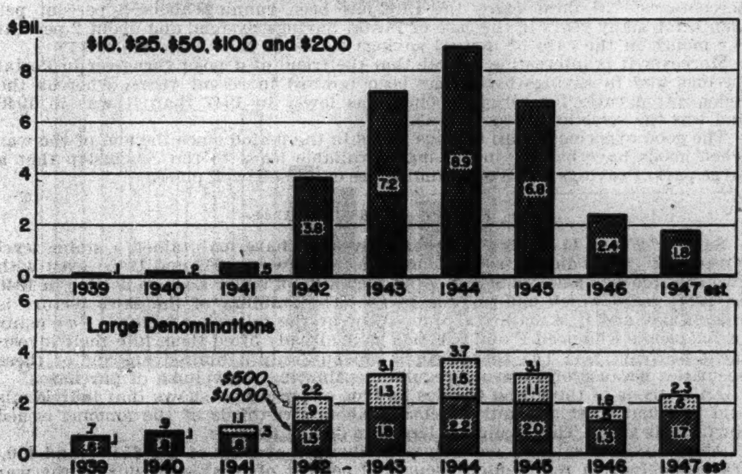
Some savings bonds were bought during the drives by "weak holders," and most of these holdings were shaken out during the 7 or 8 months following the close of the war. There is some evidence from the large volume of redemptions of low-denomination bonds after the war that the "weak holders" were pinched during this period. The decline in redemptions, it is interesting to note, has been accounted for largely by a reduction in the redemptions of the $10, $25, and $50 bonds.

Percentagewise, the rate of redemptions appears to be rather low and reassuring. In October 1947 redemptions amounted to 1.02 percent of the amount outstanding. This is extremely favorable experience.

SAVINGS TURN-OVER AND SERIES-E REDEMPTION RATIO

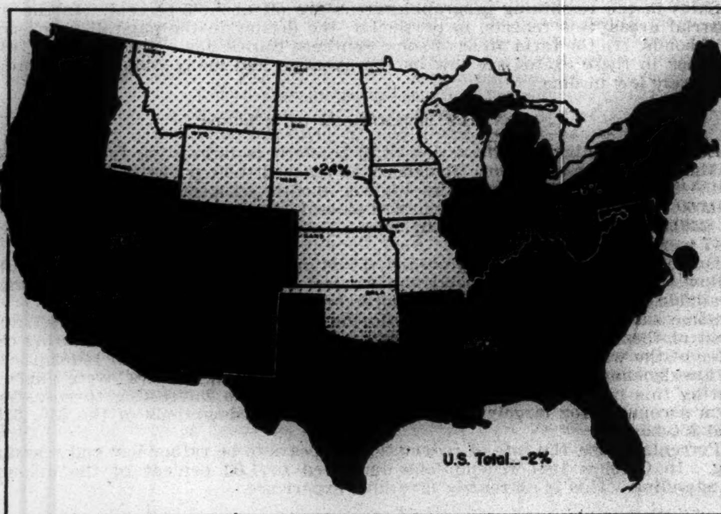
One of the gratifying things with respect to the series-E bond redemption experience is that it is favorable not only in aggregate amount but also when compared to the turn-over of other comparable forms of savings. For the

DENOMINATION BREAKDOWN OF SALES OF E BONDS* SINCE BEFORE THE WAR.....



*Includes D bonds 1939–'41; figures for 1944 and 1945 adjusted for War Loan carryovers

E BOND SALES COMPARISON, 1946-1947*....



* Based on first 10 months

fiscal year ended June 30, 1947, series-E bond redemptions averaged 1.2 percent per month of the amount outstanding. In the fiscal year 1946 the ratio was 1.6 of the amount outstanding.

Figures on deposits of the Postal Savings System and on deposits in mutual savings banks in New York State indicate that deposit turn-over—that is, withdrawals in relation to total deposits—is considerably higher than these percentages. In these cases the rate has been running about 3 percent per month for many years in the case of Postal Savings System, and about 2 percent per month in the case of mutual savings banks in New York State.

Moreover it is interesting to note that the trend of deposit turn-over in Postal Savings and in savings banks has been upward in recent years, whereas the redemeption ratio for series-E bonds was lower in 1947 than it was in 1946 and was the same as it was in 1945.

The good experience with savings bonds in the period since the end of the war when goods have become increasingly available leads to the conclusion that a large part of savings bonds outstanding are extremely well placed.

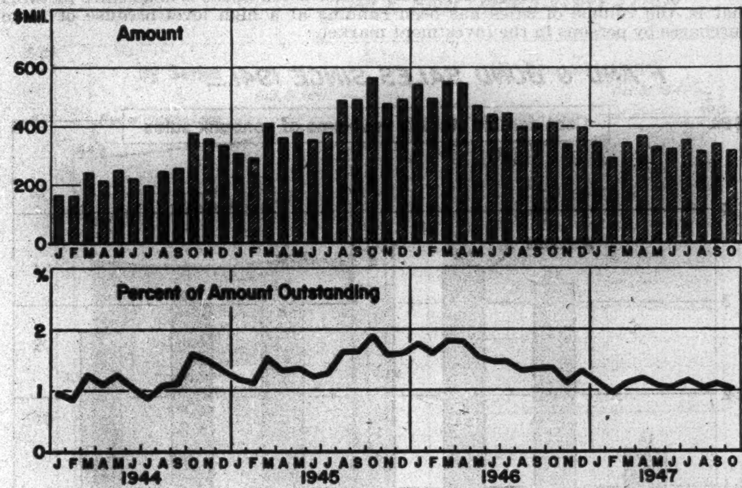
F AND G SALES SINCE 1941

Sales of F and G bonds to nonbank investors have maintained a stable level since 1942. Sales did not show unusual gains between 1942 and 1945—even with two or three war loans in a year—and they did not suffer a sharp decline in 1946 or 1947, years which had no war loans. The stability of the sales picture is remarkable and it is mainly accounted for by the following factors: (*a*) many of the people who need F and G bonds have already fitted them into their investment program, and (*b*) these people can buy only a limited amount of these securities because of Treasury regulations limiting the volume of purchases.

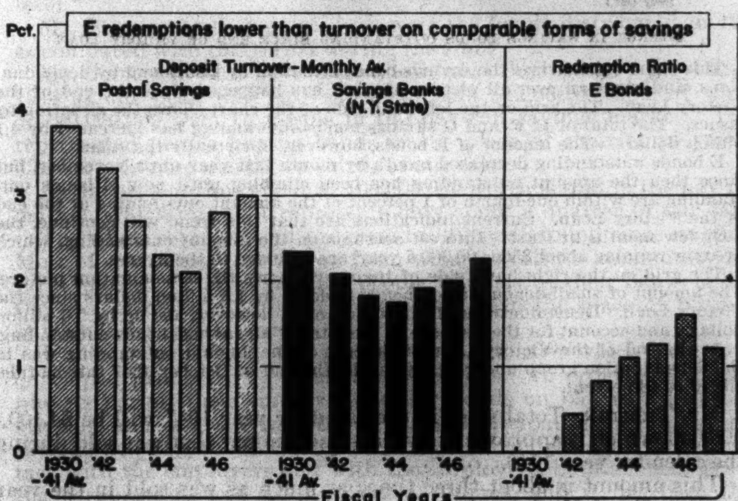
An analysis of the F and G sales by type of purchaser shows that individuals and personal trust accounts purchased about two-thirds of the amount issued during this year. This is slightly less than during the war.

An analysis of sales by denomination shows that sales of the $5,000 and $10,000 denomination represented around 50 percent of total sales during the war years. In 1946 this proportion increased to 60 percent and in 1947 to 63 percent,

MONTHLY REDEMPTIONS OF E BONDS.....

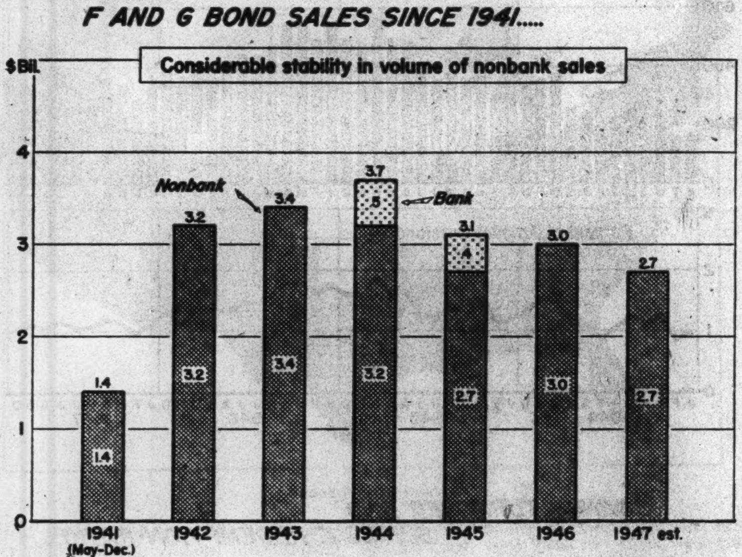


SAVINGS TURNOVER AND SERIES E REDEMPTION RATIO*.....



*Turnover and redemption ratio are percents of amounts outstanding

with sales of the small denominations decreasing accordingly. The present situation is, therefore, directly comparable to that noted in the E-bond sales picture; that is, the volume of sales has been running at a high level because of large purchases by persons in the investment market.



CHANGE IN SAVINGS BONDS OUTSTANDING SINCE END OF VICTORY LOAN

This chart summarizes the savings-bonds situation by issues and by denominations, and gives an over-all picture of what has happened since the end of the Victory Loan. The grid on the left-hand side of the chart shows the situation by issues. The total of E, F, and G savings bonds outstanding has increased by 4.1 billion dollars. The amount of E bonds, however, is virtually the same.

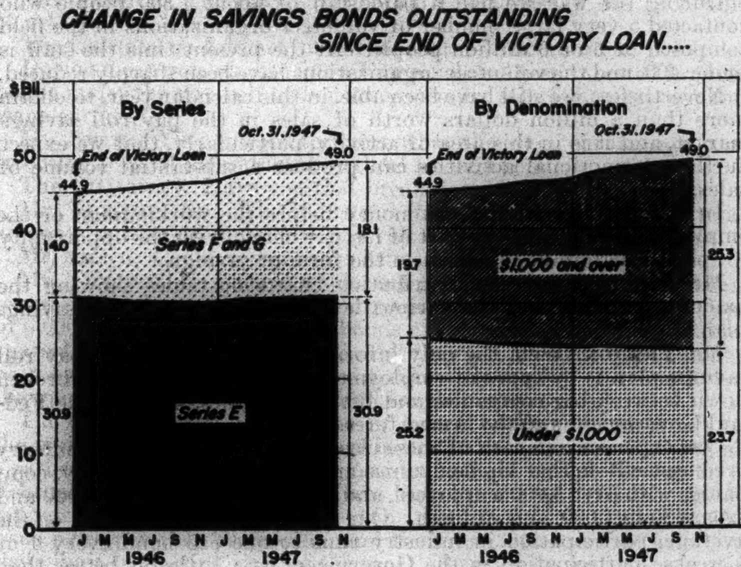
E bonds outstanding decreased month by month last year until November, but since then the amount outstanding has been climbing until now E bonds outstanding are within one-fourth of 1 percent of the amount outstanding at the end of the Victory Loan. Current indications are that this trend will continue, the next few months at least. Interest accruals on the amount outstanding, which are now running about $560,000,000 a year, are included in the figures.

The grid on the right-hand side of the chart shows the denomination picture. The amount of small-denomination bonds is down by 1.5 billion dollars since the Victory Loan. Denominations of $1,000 and over, however, are up by 5.6 billion dollars, and account for the increase in the total of all savings bonds outstanding. At the end of the Victory Loan 56 percent of the amount outstanding was in the denomination group under $1,000 but by the end of October 1947 this had declined to 48 percent.

Mr. TICKTON. Total sales in the calendar year 1947 will be $4,100,000,000, which is approximately the same amount that was sold during the calendar year 1946.

This amount is about three times as much as was sold in the year prior to Pearl Harbor. It is considerably less than was sold during wartime, but is quite an increase over prewar sales.

Of course we had expected that sales would be higher in the postwar rather than in the prewar period because of all the educational and promotional activities that had gone on with respect to savings bonds



during the war, but we were not prepared to estimate, say, a year and a half or two years ago, that sales would be three times the prewar level.

Mr. Smith. At that point, how were the bonds distributed in 1947 as compared with the period during the war?

Mr. Tickton. This first chart shows that during the war—taking 1944 as our peak war year sales—we sold $12,600,000,000, of which $8,100,000,000 went to people in the pay-roll savings market. That represented people buying bonds at the place of their employment. That represented about two-thirds of our sales.

At the present time about $1,100,000,000 worth is sold in the pay roll market, which means it represents only about a quarter of our sales.

The whole savings bond program has turned around since wartime. Most of our money now comes from what we call the community and farm market. That represents people who buy at their banks and at the post offices and through places other than the place of business at which they are employed.

The sales at the pay roll savings level are sales which have to be developed primarily by promotion activities. In order to have employers permit their employees to buy bonds on pay roll deduction systems, and in order to obtain a large participation in the pay roll savings activity, the Treasury finds that it requires a continued contact with the employers and with the employees, both as members of the corporations and as members of unions, and it has been that activity which had been carried out during the war which we have carried over into the postwar period.

Mr. Smith. That is a wholly voluntary proposition?

Mr. Tickton. That is a wholly voluntary proposition in terms of the activities of the employees and the employers; yes.

During the war we had a paid staff of about 1,800 people who contacted a very large number of volunteer organizations in the field composed of 5 or 6 million people. At the present time the staff is under 400, and the volunteer organizations have been sharply reduced.

Nevertheless, we still have been able, in this calendar year, to obtain more than a billion dollars worth of sales in the pay roll savings market, and it is in this area of activity, particularly, that we expect further promotional activities can produce a substantial volume of sales.

In this activity we get the money before the workingman or the employee takes it home as part of his pay check, with the opportunity to spend it before he invests it in the form of savings.

Mr. SMITH. Have you distribution charts or tables showing the amounts purchased at the various levels under the pay roll savings plan?

Mr. TICKTON. Well, the only information we have on the pay roll savings plan is by types of employment. That is, we have it broken down between big companies and little companies, between the Federal Government and the armed forces.

Our experience in each of these classes—and also as far as industry is concerned—is that big companies are divided as between, say, companies with over 5,000 employees, and companies of 1,000 to 5,000 and from 500 to 1,000, and so forth. Our experience has been that, on the average, participation in industry runs to one $25 bond every 4 or 5 weeks; participation in the Government is a little bit better than that. But it has been amazing to us to find the uniformity of purchases. That is, if you take 5 or 6 thousand companies and distribute them in terms of the average purchase per employee they all cluster around between something like $17 or $20 per month.

Mr. SMITH. What I am getting at is the amount of bonds actually sold to the run-of-mine wage earner.

Mr. TICKTON. To the run-of-mine wage earner participating in the pay roll savings plan, the average is 12 bonds a year, which amounts, in cash, in the neighborhood of $250 a year.

Mr. SMITH. That is the total?

Mr. TICKTON. Yes; per man.

Mr. SMITH. Then, the total for all employees in that class?

Mr. TICKTON. The participation, each month, runs to $95,000,000 a month for the pay-roll savings plan as a whole.

Mr. SMITH. I am not talking about the pay roll savings plan as a whole; I am talking about the wage earner. Not the salaried employees, but the wage earners alone.

Mr. TICKTON. The wage earner pays about $250 a year cash to obtain approximately 12 or 13 $25 bonds, which are $18.75 apiece. So it is 12 or 13 times $18.75.

Mr. SMITH. What is the total amount, say, for 1946, and up to the present time, of bonds which have been sold to that category of people?

Mr. TICKTON. $1,100,000,000 in 1947, and $1,700,000,000 in 1946.

Mr. SMITH. That is for wage earners? It does not include salaried people?

Mr. TICKTON. Well, I cannot break it down as between salaried employees and wage earners.

Mr. SMITH. Well, that is exactly what we want.

Mr. TICKTON. The only information the Treasury has been able to get——

The CHAIRMAN. I do not know that that is what we want.

Do you mean you want to know how much has been invested in these bonds under the pay-roll deduction system by salaried employees and wage earners?

Mr. SMITH. Yes; I want to know what the wage earners are contributing toward the purchase of these savings bonds.

The CHAIRMAN. Have you that break-down?

Mr. TICKTON. No. The industrial firms only provide us the total amounts purchased under the pay roll savings plan in each plant.

Mr. SMITH. Could you get that information for us?

Mr. TICKTON. In general we cannot get it because the firms themselves do not have it. It is too expensive to break down, for a firm of 5,000 people, into how many bonds are purchased by this group as against that group of employees. All they tell us is the total amount paid over to the Federal Reserve Bank at the end of the month for the total volume of bonds purchased for their employees.

The chart on page 5 shows the current E bonds sales picture, and the main thing shown in the chart is that sales have been running at a rather stable level for the last year and a half, except for January, February and March, when we have limit purchases. That is, the E savings bonds are being purchased in the aggregate amount of $3,750 issue price per year per person, and there are some persons who buy their limit in the first part of the year. So sales normally are larger in January, February, and March. Except for that period, as you can see from the chart, sales have been averaging 300 million to 350 million dollars a month.

Pay-roll savings sales, however, have been declining steadily for the last year and a half, and that has been due, we find, to our failure to contact a great many firms in order to keep up their interest in the pay-roll savings plan.

If you do not keep working at the pay-roll savings plan you find that just the turn-over of employment alone knocks out about 25 percent of the people who participate each year. Then a great many firms drop the plan because they think the Government is not really interested in it, or they find it expensive to operate, or they have some other reason which causes them to want to drop the plan.

If we expand our savings bond sales organization it will be expanded primarily in the field so that we can have more people to contact plants to keep the pay-roll savings plan in extensive operation.

The table on page 7 summarizes the participation picture since January, 1946. In January, 1946, there were 10½ million people on the pay-roll savings plan. At the present time there are only 4½ million.

As you can see from the table, the reduction has been in all types of organizations having the plan. We can, with the present staff, only contact large companies, and contact them on the average, say, of once every 6 months or once a year. With a larger staff it would be possible to contact them more often and to conduct promotional activities which our experience has indicated will cause a much greater participation in the plan, both in terms of number of people in any particular plant and in terms of the number of plants having the plan in operation.

The table on page 9 covers purchases of savings bonds on the bond-a-month plan. The Treasury inaugurated the bond-a-month plan last summer in order to give people who were not on pay rolls the opportunity to buy bonds in a convenient method—once a month.

Under the bond-a-month plan, you sign an order to your bank saying "Please buy a bond for me in the following amount once every month," and the bank charges your account and there is no further bookkeeping necessary, or no further application is necessary on the part of the customer.

The survey that we took as of the first of August indicated that in 1,000 banks with 10,000,000 depositors we had 50,000 people participating.

There are 40,000,000 depositors, and practically all of the banks of the country have the plan in operation, and our estimate is that at the present time there are more than a quarter of a million people participating in this program and that the total purchases run in excess of $15,000,000 a month.

This has been a wholly voluntary program. It has been put into operation by the commercial banks of the country because they thought it was a good thing—good for them as well as good for the Government—and they have been very happy about the plan.

Unfortunately, from the point of view of the Treasury and the point of view of the results of the sales operation, we only have a couple of people who are assigned to contact banks and do all the sales promotion activities that are required in an operation that is supposed to cover 14,000 banks. With a larger staff it will be possible to give greater attention to this program, and the possibility of multiplying the sales a number of times, within a relatively short period, seems rather reasonable.

The chart on page 11 breaks down savings bond sales by denominations. The big decline in savings bond sales since the end of the war has been in the small denominations. And that is, of course, because most of the pay roll purchasers buy their bonds in $25 denominations. They like to buy one bond a month. You pay it out in 3 or 4 weeks, and get your bond after the close of the month.

Our large denominations are selling rather well. We sold more in 1947 than we did in 1942, for example, and that is because we have educated a lot of people across the country to buy savings bonds as a good investment for their own investment portfolios.

The map on page 13 shows what has happened in savings bond sales by areas this year as compared to last year. We have found that our sales promotion activities in the farm areas, particularly in the Middle West and the Farm Belt, during the war have paid off since the end of the war. A great many people who had never heard of savings bonds until 1943 and 1944 are now steady customers and apply a considerable proportion of their enlarged farm income to bond purchases.

In other areas of the country, sales are down a little from last year.

In the northern part of the country it is primarily due to the curtailment of the pay-roll savings plan activity.

On page 15 is a chart which shows at a glance what has happened to savings bond redemptions since 1944. The redemptions experience, as the Secretary has said, has been very gratifying. It had been predicted during the war that we had a lot of bad selling and that a

lot of the bonds sold would be cashed as soon as the war would be over. It just did not happen. Our redemptions, at the present time, run at the rate of 1 percent per month of the amount outstanding. We never got as high as 2 percent per month, and it has dropped continuously since the end of the war. And the 1 percent level seems to be a rather constant level at the present time. It could have been a great deal higher, and we are quite happy that the situation has developed as well as it has.

The chart on page 17 compares the E bond redemption situation with the deposit and turn-over in postal savings and savings banks. We have tried to take something that is as nearly comparable as possible. Of course people would be more likely to pull their money out of savings banks and the postal savings than they would be to cash their savings bonds, but this is in terms of liquid assets of small people, who own these savings bonds, and these are the most comparable figures.

We are very happy to note that the E savings bond redemption ratio is only one-half that of savings banks and only one-third that of the post office.

Moreover, savings banks and postal deposits turn-over has been going up for the last year or so, whereas savings bond cashings have been going down.

There is a chart on page 17 to cover F and G bonds. They are purchased in the maximum amount of $100,000 face value per year for each purchaser, and they are required by people in the investment market who want a security that does not fluctuate in market value and is redeemable on demand at stated prices by the Government.

Sales in F and G bonds have continued at a rather stable level, and amount to $2,700,000,000 in 1947, which is about the same as the sales to nonbank investors in 1945.

In 1944 and 1945, you will note from the chart, we allowed, in connection with some of the war loans, limited subscriptions by banks, but in order to make the figures comparable so that you could see the amounts sold to the same types of purchasers now purchasing these bonds we had it broken down, and you can see that nonbank sales are about the same all through this period.

The last chart, on page 21, summarizes the savings bond situation, and it shows that the total savings bonds outstanding, of the current series, E, F, and G, have grown up from about $45,000,000,000 at the end of the Victory Loan to $49,000,000,000 at the present time, an increase of $4,000,000,000—an increase which we certainly would not have forecast at the end of the Victory Loan. We did not expect that the experience would be that good.

With respect to the E bonds, the amount outstanding today is 99¾ percent of the amount outstanding at the end of the Victory Loan, and in January it will probably exceed the amount outstanding at the end of the Victory Loan.

The chart on the right-hand side of the page shows that the sales in the smaller denominations have been going down and those in the larger denominations have been going up. We hope that by expanding our pay-roll savings activity and the bond-a-month program we can sell more people in the lower income brackets a considerable volume of savings bonds.

Secretary SNYDER. Mr. Chairman, if there are no questions on this technical side, I would like to have Mr. Vernon Clark, who is Director of the Savings Bonds Division of the Treasury, talk to you for a moment about what might be done under increased activity.

The CHAIRMAN. Would you rather, Mr. Secretary, present this whole program to us before the questioning?

Secretary SNYDER. It is entirely up to you, sir.

The CHAIRMAN. You would prefer to go ahead with your program.

Secretary SNYDER. It is entirely up to you, sir. If you have some questions at this time on the technical side, it is perfectly all right.

This has been a presentation of the past. It is purely a factual presentation, and does not deal with what might be done.

Mr. BUFFETT. Mr. Chairman, may I ask a question?

The CHAIRMAN. Mr. Buffett.

Mr. BUFFETT. I am interested in these charts.

I wonder if the Treasury has prepared any statistics showing what has happened to the purchasing power of the dollars invested in savings bonds since 1939?

Secretary SNYDER. I imagine that would be in the Labor Department or the Commerce Department.

Mr. BUFFETT. You do not prepare any such information?

Secretary SNYDER. No, sir.

Mr. BUFFETT. You do not think it is important?

Secretary SNYDER. It is extremely important. We study it all the time, but we do not prepare it. We have to get that information from other sources.

The CHAIRMAN. Mr. Secretary, at this point, you have stressed the necessity for increasing personnel for the bond drive. Can you give us an estimate, rough or otherwise, as to the number you might require?

Secretary SNYDER. That was the field I was going to ask Mr. Clark, Director of the Savings Bonds Division, to discuss with you, with your permission.

The CHAIRMAN. I think that probably the advisability of going ahead with your presentation before we ask any questions.

Mr. Patman, do you have a question.

Mr. PATMAN. Yes; I would like to ask the Secretary a few questions, Mr. Chairman.

What is the supply of money now compared to, say, 1925, 1929, and 1939?

Secretary SNYDER. The money supply has increased considerably with the increased volume of business.

Mr. PATMAN. Would you not consider it to be about 3 to 1, or 4 to 1?

Secretary SNYDER. I have Mr. Haas here who can tell you definitely, but it has not gone up excessively in proportion to the gross national product. I believe it was about 37 cents to the dollar of the gross national product, in 1939 as against 47 cents now.

Mr. PATMAN. The reason I asked you that question, Mr. Secretary, is that it occurs to me that the law of supply and demand operates in the money market just as in other markets, and that the trend for interest rates should be downward instead of upward. Has it been the policy of the Treasury to increase the interest rates on certificates in recent times?

Secretary SNYDER. In the last few months, in the debt management program, we have allowed an increase in the certificate rate as an anti-inflationary pressure.

Mr. PATMAN. It considerably increases the amount of interest that the taxpayers will have to pay, though.

Secretary SNYDER. Well, the way we have managed it, it has not.

Mr. PATMAN. It has not increased it?

Secretary SNYDER. No, sir; because we have paid off higher-interest-rate obligations with lower-interest-rate obligations.

Mr. PATMAN. But when you could get money for $\frac{3}{8}$ of 1 percent I just could not understand why you would voluntarily pay a lot more than that.

Secretary SNYDER. It was our desire to stiffen the rates and bring about an anti-inflationary pressure on general lendings.

Mr. PATMAN. What do you consider to be the greatest inflationary pressure today, Mr. Secretary?

Secretary SNYDER. Well, naturally, it is the amount of purchasing power in the market over and above the available goods to meet that demand.

Mr. PATMAN. Do you not think that the banks holding so many Government bonds represents one of the major inflationary pressures?

Secretary SNYDER. It is an inflationary pressure that we have been working on constantly, as I pointed out. We are aware of that—by the fact that we have reduced the bank holdings of Governments by over $6,000,000,000 so far this year alone.

Mr. PATMAN. How much in bonds do the banks hold now, Mr. Secretary?

Secretary SNYDER. Federal Reserve holds $22,000,000,000. Commercial banks hold approximately $70,000,000,000.

Mr. PATMAN. $70,000,000,000.

Secretary SNYDER. Yes.

Mr. PATMAN. If the banks did not hold that $70,000,000,000, and if it was held by nonbank investors, or individuals, it would be a great deal better, would it not, for the country as a whole?

Secretary SNYDER. There is no question about that.

Mr. PATMAN. When you sold bonds to the Federal Reserve banks, and the banks bought those bonds and held those bonds, did you consider that an inflationary pressure?

Secretary SNYDER. It is.

Mr. PATMAN. Why would it be, Mr. Secretary?

Secretary SNYDER. Because it is the basis of the credit reserve itself.

Mr. PATMAN. I know; but there are plenty of reserves, anyhow, and the reserves are only used if the banks need additional credit, are they not?

Secretary SNYDER. That is correct.

Mr. PATMAN. But the banks do not need additional credit. If you let the Federal Reserve banks have a billion dollars in bonds instead of letting the ordinary commercial banks have a billion dollars in bonds, one would be inflationary to the commercial banks, we know. But how can you say that the billion dollars in bonds held by the Federal Reserve banks would be inflationary?

Secretary SNYDER. Because it becomes part of the reserves available to the banks for credit extension.

Mr. PATMAN. But the banks do not need that credit, you see. They have plenty of bonds, and they can sell a billion dollars worth of bonds to the Federal Reserve banks and make available several billion dollars in credit, can they not?

Secretary SNYDER. But you were asking me what effect it would have if we put it in the Federal Reserve banks, not whether the banks need it or not.

Mr. PATMAN. It could not be used unless the banks used it.

Secretary SNYDER. Well, that is correct.

Mr. PATMAN. So it would not be an inflationary pressure unless the banks obtained it that way.

The Federal Reserve Board could place restrictions on that, could it not?

Secretary SNYDER. I would have to know what those restrictions are before I would testify on that. If the Federal Reserve Board could not place restrictions, it would be very inflationary.

Mr. PATMAN. Why should you not encourage the Federal Reserve banks to purchase these bonds when they are available in the market? And if you succeed in siphoning a lot of the bonds out of the commercial banks into the Federal Reserve banks, it occurs to me it would be an anti-inflationary step; do you not think so?

Secretary SNYDER. It all depends on the method you use, Mr. Patman.

Mr. PATMAN. Well, I am talking about going into the open market and buying up the bonds.

Secretary SNYDER. Credit reserve would still be there. The banks could still use it. If you swelled the credit reserve base in the Federal Reserve banks——

Mr. PATMAN. That is, if the Federal Reserve Board permitted the banks to use it.

Secretary SNYDER. Under the present situation, why, of course, that is what we are doing.

Mr. PATMAN. The Federal Reserve Board, if it does not have the power, could be given the power by Congress to restrict that credit, could it not?

Secretary SNYDER. I would like to scrutinize the method that would be used before I would testify on that, sir.

Mr. PATMAN. Do you think that the sale—I believe it was in September—of the 2½ percent bonds to institutional investors—do you think that affected the bond market?

Secretary SNYDER. It absorbed a great deal of the money that was available for those purchases.

Mr. PATMAN. Do you not think it might have affected adversely the market for municipal bonds, in particular, Mr. Secretary?

Secretary SNYDER. I doubt it.

Mr. PATMAN. You doubt that?

Secretary SNYDER. I doubt it; for the reason that this was done in consultation with the holders of available investment funds, and there was a demand for this type of bond.

Mr. PATMAN. You do not think it did affect the municipal bond market?

Secretary SNYDER. No, sir.

Mr. PATMAN. What do you think has caused the bond market to act so badly in the last few weeks or months?

Secretary SNYDER. It is probably because there are so many State and municipal bond issues that are being offered.

Mr. PATMAN. You think that is the principal cause and not the offering to the institutional investors of these bonds by the Treasury?

Secretary SNYDER. Yes, sir.

Mr. PATMAN. With regard to the tax reduction, which you mentioned indirectly in your statement, is it not a fact, Mr. Secretary, that on long-term bonds, which are owed by the Government, that the Government and the taxpayers normally pay about $2 for every $1 that is outstanding—$1 in interest and $1 on the bonds? Is that not about the record in the past?

Secretary SNYDER. I do not understand that question.

Mr. PATMAN. In other words, if the Government owes a bond that is drawing so much interest—say 2 or 3 or 4 percent—by the time that bond has been paid you have paid as much, for the Government, in interest, as you paid on the principal.

Going back over our debt transactions of the past, could it not be reasonably said, with a fair degree of accuracy, that we usually pay about $2 for every $1 that we owe, for the Government debt?

Secretary SNYDER. May I bring Dr. Haas into the picture here?

Mr. PATMAN. Certainly.

Secretary SNYDER. Dr. Haas.

Mr. HAAS. We have not made any calculation of that sort, Mr. Congressman. As you are well aware, it is a function of the coupon rate and length of maturity.

Mr. PATMAN. Well, would that not be a fairly reasonable statement, considering the debt transactions of the Government in the past? Take the Panama Canal bonds, for example. I suspect you have already paid $1, and we still owe on the bonds, do we not?

Mr. HAAS. Well, that is a 50-year bond. It is a calculation that could readily be made. We just have not made it.

Mr. PATMAN. Would you make that, please, sir?

Mr. HAAS. We will be glad to put it in the record.

Mr. PATMAN. I will appreciate it.

(The information above referred to is as follows:)

PANAMA CANAL BONDS

The Panama Canal bonds are 50-year bonds and have a 3 percent coupon; therefore, by the time they mature $1.50 of interest will have been paid for every dollar of principal. These are the only bonds that run that long, however. The longest bonds issued during the war-finances period were 2½ percent 27-year bonds—callable in 22 years. On these bonds, therefore, if they are not called before maturity, the interest payments will total 67½ cents for each dollar of principal. At the other extreme, there are, of course, 3-month Treasury bills, currently issued at a discount rate of just under 1 percent, so that the total interest paid to maturity on bills for each $1 principal is less than one-quarter of a cent.

Mr. PATMAN. So, if I am correct in the assertion that we normally pay about $2 for every $1 we owe, Mr. Secretary, if we reduce taxes $4,000,000,000 now, and we still owe that $4,000,000,000, by the time we have paid it we will have paid $8,000,000,000. So it should not be called a tax reduction bill, but should be called a tax-increasing bill.

Secretary SNYDER. Right at this time I am willing to accept that

because I do not want taxes reduced until we make some readjustments in our tax structure. So I am willing to accept your argument right there.

Mr. SMITH. Mr. Secretary——

Secretary SNYDER. We know, of course, that we have to measure maturities, and all that, to arrive at that conclusion.

Mr. SMITH. Mr. Secretary, when the Treasury sells securities to the Federal Reserve Bank System, do any part of such securities find their way into commercial banks as deposits?

Secretary SNYDER. When the Federal Reserve buys them?

Mr. SMITH. No part of those securities finds its way into the commercial banks as deposits?

Secretary SNYDER. Dr. Haas just brought out this fact: That when the money is spent it does get into the banks.

Mr. SMITH. Then, of course, it is inflationary to that extent—to the extent that these securities find their way into the commercial banks as deposits. Of course it is inflationary; is that not true?

Secretary SNYDER. That is correct.

Mr. SMITH. Why, of course.

Mr. COLE. Mr. Secretary, I would like to ask what the Treasury will do with the receipts from the sales of the E bonds.

Secretary SNYDER. Well, they can be used in the retirement of the debt as the maturities come and help us adjust those maturities as they occur, and are covered into the general fund of the Treasury. We keep paying down the maturing obligations whenever we can to keep our cash balance at a peacetime level.

Mr. COLE. Do you think that the sale of these E bonds would increase the national debt?

Secretary SNYDER. Not necessarily.

Mr. COLE. Not necessarily?

Secretary SNYDER. No, sir.

Mr. COLE. Well, would the sale of the E bonds require less revenue through taxes?

Secretary SNYDER. The sale of E bonds—in our whole program we have to work toward a stabilization of the debt——

Mr. COLE. I understand.

Secretary SNYDER. And distribute the maturities which will help make it more easily handled in the year-to-year redemptions and maturities. So, by going into the savings-bond area, we get a better distribution of the debt; and by using the proceeds of that to pay off bank-held debt it would be very helpful.

Mr. COLE. Do you think Congress should take some steps to assist, at least, in the management of the debt?

Secretary SNYDER. In what fashion? I would be glad to turn debt management over to it.

Mr. COLE. In determining how many E bonds should be issued, or, in connection with your long-term issues, what should be reissued.

Secretary SNYDER. Do you mean should Congress decide, or put a limit on, the amount of savings bonds that are sold?

Mr. COLE. Yes.

Secretary SNYDER. Well, I do not know why they would take that interest.

Mr. COLE. Well, they are interested; are they not?

Secretary SNYDER. Well, they are interested in the whole debt-management picture because it is part and parcel of our whole economic structure. Naturally, I rely on Congress' counsel and advice on it because it is just as much your problem as it is mine.

Mr. McMILLEN. Mr. Chairman, may I ask a question, please?

The CHAIRMAN. Mr. McMillen.

Mr. McMILLEN. Mr. Secretary, to what extent would you restore consumers' credit controls? You make the general recommendation in your statement. Now, how far would you go with that?

Secretary SNYDER. I think they should be restored on the purchase of all items that are in short supply. As to the workings of it, the testimony will be presented by the people who actually operate the regulations. I do not want to move into their field, but it occurs to me that the restraint should be particularly on items in short supply. If you were to extend credit against an item that is in ample supply, you would not be increasing the inflationary pressure a bit.

Mr. McMILLEN. Would you like to see reimposed these controls as they were prior to November 1?

Secretary SNYDER. Well, as you well know, towards the last, as people knew they were going off, they became less and less effective.

Mr. McMILLEN. Have you any definite suggestion to make as to the extent to which you would go in the restraint of so-called inflationary bank credit?

Secretary SNYDER. I have no proposals to make at this time; no, sir. That is a Federal Reserve bank matter, sir.

Mr. McMILLEN. What has been the increase in these bank credits since the end of the war, Mr. Secretary?

Secretary SNYDER. I think bank credits have gone up——

Mr. McMILLEN. And include for the last 6 months. Break it down to include since the end of the war and the last 6 months.

Secretary SNYDER. I will have that figure in a moment, sir.

Mr. Congressman, we will have to make an analysis.

Mr. McMILLEN. Will you put that in the record?

Secretary SNYDER. Yes, sir; we will get that for you. You want since the war, and within the last 6 months—that is, the increase in the commercial-loan volume.

Mr. McMILLEN. You cannot give it offhand for the benefit of the committee at this moment, can you?

Secretary SNYDER. Well, maybe we can get it for you before we leave this morning, but if not we will insert it in the record.

Mr. McMILLEN. Mr. Secretary, the sale of savings bonds is in itself a sign of inflation, is it not? Or of overabundance of money?

Secretary SNYDER. I beg your pardon?

Mr. McMILLEN. The report that you make, on the sale of savings bonds, is in itself a sign of inflation or an overabundance of money, is it not?

Secretary SNYDER. Well, it is evidence that there is money available for putting into savings.

Mr. McMILLEN. And because the demand is so great, that is a definite indication of inflation and "cheap money"; is that not true?

Secretary SNYDER. Well, there is evidence that there is money available for savings investment; yes, sir.

Mr. McMILLEN. That is all. Thank you.

Mr. MONRONEY. Mr. Chairman.

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Dr. Talle.

Mr. TALLE. Mr. Secretary, may I return to the statement that you made about taxes? I think this is a fair statement of what you said:

> I do not want taxes reduced until we have had a chance to make a readjustment in our tax structure.

Secretary SNYDER. Yes, sir. I have made that statement a number of times—that I thought that in approaching a tax-reduction plan we should first take care of whatever aid we are going to give to foreign countries, within a balanced budget; that we should pay something on our debt; that we should make tax revisions in our present tax structure, and then, when those things are accomplished, we should proceed to the tax-reduction problem.

That is what I meant a while ago when I said that there were certain things that I felt strongly should be done before we start talking about tax reduction.

Mr. TALLE. So if I were to ask you how soon, in your opinion, taxes might be reduced, your answer would be that?

Secretary SNYDER. My answer would be: Just as soon as we have sufficient funds available to accomplish these three things that I have mentioned.

Mr. TALLE. Now I would like to turn to consumer credit for a moment.

Secretary SNYDER. May I answer a question first? It may be helpful.

Mr. McMillen, we find that at the end of 1940 total loans of insured commercial banks were 18 billion dollars. That has risen, on June 30, 1947, to 33 billion dollars.

For the 6 months ending June 30, it has risen from 31 billion dollars to 33 billion dollars.

Mr. MCMILLEN. Thank you.

Mr. TALLE. Mr. Secretary——

Secretary SNYDER. That is a rough over-all figure. We can break it down for you, if you like, Mr. McMillen.

I am sorry, Dr. Talle.

Mr. TALLE. That is all right. What is your distinction between consumer credit and commercial credit?

Secretary SNYDER. Well, of course, one grows into the other, because, in the consumer-credit field, if there is a great demand of finance companies and of retailers, department stores, and the like, for financing of consumer credit, they would probably go to the commercial banks and borrow money to carry on that operation. So by cutting down on the consumer-credit side, it immediately has an effect on the commercial bank side by reducing the demand for loans in that field. They are related; yes, sir.

Mr. TALLE. Turning to page 2 of your statement, the next to the last paragraph, you say:

> Total consumer credit outstanding at the end of September reached an all-time peak of $11,400,000,000. At the end of 1945, it amounted to only $6,600,000,000.

That was at a time when consumer goods were very difficult to get?

Secretary SNYDER. That is correct.

Mr. TALLE. Like refrigerators——

Secretary SNYDER. That was at the end of the war period, and goods and labor had not yet been released to go into the manufacture of supplies; that is correct.

Mr. TALLE. So we have a right to assume that there must have been considerable pent-up or unsatisfied demand in 1945?

Secretary SNYDER. That is definitely true.

Mr. TALLE. And yet the figure was $6,600,000,000. Then, the next sentence:

Prior to December 1946, total consumer loans outstanding at any one time had never reached the 10 billion dollar level.

Now, the all-time peak, as noted in your statement, was September, $11,400,000,000. Taking into account the lower purchasing power of the dollar, and taking into account the pent-up demand existing in 1945, would you say that $11,400,000,000 this year, as against $6,600,000,000 in 1945, would be a dangerous increase?

Secretary SNYDER. The increase has to be measured against the availability of goods. If we have the goods available, I would like to see it go up to this height. I think in the long run there should be a tempering of this type of credit. But, of course, for prosperity we want to get as many goods sold as we can. The question of whether that is dangerous or not is whether or not we have the labor and materials to supply the products. If we have not, then it is dangerous, because we are adding dollars to bid against a certain limited amount of goods. If we have the goods there, and there is increasing production and increasing employment, of course, that is a different story as to whether it is dangerous or not.

Mr. TALLE. In my final question I would like to revert to taxes again. How far should the debt be reduced before you would be willing to reduce taxes?

Secretary SNYDER. A reasonable amount. I think we ought to indicate to the public that we intend to pay this obligation. One of the most important things to me is maintaining the integrity of the obligations of this country. I think that is our No. 1 goal right now, and I think that a proper payment on the debt would give credence to the fact that we consider the payment of that debt seriously.

Mr. TALLE. I would like to pursue that one step further and ask you what is a reasonable amount: 10 billion dollars, 15 billion dollars, 100 billion dollars, or what?

Secretary SNYDER. Well, nothing in that volume. But just what it is, we will discuss at a later date.

Mr. TALLE. You would not venture a definite figure within a margin of error of 10 percent?

Secretary SNYDER. I would not venture an estimate at this time.

Mr. MONRONEY. You do not remember what percentage it was that Andrew Mellon said we should reduce the public debt after World War I, do you? I do not recall, but I think it was 10 percent which he insisted was a logical amount for an annual reduction.

Secretary SNYDER. That was an early proposal.

Mr. MONRONEY. I wonder if someone could put that in the record, how much former Secretary of the Treasury Mellon suggested after World War I was a safe, sound amount to reduce the public debt each year.

Secretary SNYDER. We will see if we can get it and put it in the record.

(We have been unable to locate this reference after extensive search.)

Mr. MONRONEY. I would like to have that figure. One set of figures that we had as we went into this battle against inflation which was always illuminating was called the inflationary gap, in which we had the chart showing the total value of the national product, as opposed to the total national income. I wonder if any of your statisticians have that figure for the present time. I notice the Commerce Department stated the national product at $232,000,000,000 per year.

Secreary SNYDER. Congressman, we will try to find that. It is a very controversial subject, and all economists do not agree on it. But we will see if we can find it. What was the source of that particular chart?

Mr. MONRONEY. That was published last week by the Department of Commerce, and it showed that the total value of our national production of all types was running at $232,000,000,000. I saw a figure also published to the effect that the total income of the country from all resources was around $190,000,000,000. What I would like to know, and I think it is the first thing this committee ought to know, is: Is production outrunning the national income? If it is, then, at least we can see some daylight ahead in the inflation picture.

Secretary SNYDER. Well, there is no question but what production is making great strides in increased volume. But those figures are prepared in the Department of Commerce and not in the Treasury.

Mr. MONRONEY. Well, the Treasury would at least know what the total national income is, would it not?

Secretary SNYDER. Oh, yes; we follow that very closely.

Mr. MONRONEY. Do you have that figure?

Secretary SNYDER. Mr. Chairman, may I have my economist, Mr. Haas, give an explanation of that? He gets into gross national product and gross national income, and I would like to have him explain them.

Mr. GAMBLE. Will you have him identify himself for the record, please?

Mr. HAAS. My name is George C. Haas. I am Director of the Technical Staff, Treasury Department.

STATEMENT OF GEORGE C. HAAS, DIRECTOR, TECHNICAL STAFF, TREASURY DEPARTMENT

The figures you quoted, Mr. Congressman, are these, I think: A few days ago the Department of Commerce issued a figure for the third quarter of 1947 of $232,000,000,000, which is the figure they call gross national product, and a simple definition of that is it is the value of all goods and services produced in the country.

The other figure, which they call personal income, and which you quoted as around $190,000,000,000, is another income figure, and it is personal income. And that is all the income which accrues to persons, to individuals. So what you had there is not the gap, so-called, but two types of income; one is gross product and the other is income accruing to persons. I do not think that was what you had in mind first. Those two figures do not represent that.

Mr. MONRONEY. I am trying to rationalize some figure which will show what the value of the national product is and what is the total

earnings of individuals and corporations, and then I think you would then deduct from that the total of the taxation, both Federal, State, and local, to probably find out what your net purchasing power is against that $232,000,000,000 national product, or $232,000,000,000 worth of goods and services that are being produced.

Mr. HAAS. Well, I do not want to go into the technical discussion——

Mr. MONRONEY. I just want to try to find out what it is. It looked so easy when we were talking about combating inflation. You had these two nice lines showing the inflationary gap. I would like to know what those figures are now.

Mr. HAAS. We will see what we can find on that. As the Secretary explained, there is a divergence of opinion among economists as to what the significance of a calculation of that type is. Your figure of gross national product is the value of goods and services produced; but, by definition, all production on the other side of the equation is income to somebody. So at any level you get an equal amount of income for an equal value of production. We will put something in the record on that point.

Mr. MONRONEY. Not necessarily, because a lot of that would represent inventory, stocks, and things like that.

Mr. HAAS. Well, I say income either——

Mr. MONRONEY. If their customers are going to be priced out of the market, that will show up, will it not?

Mr. HAAS. Well, it is income to somebody.

Mr. KUNKEL. Mr. Haas, may I ask you a question which I think will clarify that? Is not gross national income included as a part of the gross national product, and is it not the major part of the gross national product? Gross national product consists of personal income plus corporate income and other things, so that the product is not really product, it is just a higher total including both personal and corporate income.

Mr. HAAS. You can look at it that way. It is what you say. It is also what I say. They make calculations both ways and check them.

Mr. KUNKEL. What I was trying to bring out is that it is rather impossible to rationalize the two in order to show an inflationary gap, because the two would be two different measurements. Something included in one is not necessarily included in the other.

Mr. HAAS. Well, I know the set of figures that the Congressman wants, and we can put them in the record if they are available. That does not necessarily mean that we subscribe to that kind of an analysis.

Mr. MONRONEY. I would like to see it, if you could give us something on that.

Mr. HAAS. Very well.

(We have checked around the Government, and it seems that this type of analysis is not being made currently.)

Mr. MONRONEY. One other question: Would not the sterilization of income in foreign gold be a Treasury anti-inflationary measure?

Secretary SNYDER. That is under study at the present time. There are two ways of handling income in gold. One is neutralizing it, through Treasury purchase and issuance of gold certificate credits to the Federal Reserve banks and the corresponding sale of Government securities out of the Federal Reserve portfolio.

The other way is sterilization—i. e., carrying it into the Treasury cash balance and leaving it unused. That is under study.

Mr. MONRONEY. In other words, it is not a base for the issuance of a lot more currency, if the Treasury takes it——

Secretary SNYDER. And holds it in the cash balance, it is not the basis for additional currency.

Mr. MONRONEY. At the present time, though, the incoming foreign gold is going into the Federal Reserve, is it?

Secretary SNYDER. That is correct; gold certificate credits are issued to the Federal Reserve banks.

Mr. MONRONEY. Then, a dollar's worth of foreign gold would be the base for how much currency?

Secretary SNYDER. Well, they say dollar for dollar, in terms of reserves, and then it expands from then on up to six times.

Mr. MONRONEY. Five or six times?

Secretary SNYDER. Yes.

Mr. MONRONEY. But the other way around would be definitely an anti-inflationary measure?

Secretary SNYDER. It would be, but I must remind you it costs money to do that, because it prevents us from reducing the debt, or it actually increases the debt. If we have to borrow money to do it, it increases the debt; if we have to use our cash balance, it costs us money, because we are not paying off debt with that cash balance. But, as an emergency measure, to combat inflation, it is a good procedure.

Mr. MONRONEY. Looking at your charts on these E bond sales, it appears to me just roughly that your redemptions are running almost equal with your sales of E bonds.

Secretary SNYDER. We have been holding them about on a level; yes.

Mr. MONRONEY. Would that represent a shifting of incomes? In other words, one group of E bond holders being severely pinched by the increasing cost of living and forced to liquidate their savings, and another class of people, having perhaps a better wage or a better income from business, being on the surplus side, so that——

Secretary SNYDER. It could; and, on the other hand, it could mean that our sales effort has not been quite as strong as it could have been had we had more people working on it. Both of those elements come into that.

Mr. MONRONEY. You think that primarily it is due to a lack of organization staff to really push these sales?

Secretary SNYDER. That is correct; because we have had a number of pay-roll savings plans dropped which, if we could have gone out and contacted the people through personal visit, we could probably have continued.

Mr. SUNDSTROM. Mr. Secretary, could you give me the latest Treasury figure on what the total amount of money in circulation is?

Secretary SNYDER. $26,000,000,000 is held outside of banks.

Mr. SUNDSTROM. Could you give me an estimate as to how much of this is held by foreigners at the present time?

Secretary SNYDER. We have no way of knowing that, sir.

Mr. SUNDSTROM. Do you not even have an intelligent guess? I see an awful lot of authorities make an intelligent guess in the paper. I would like to know.

Secretary SNYDER. I wonder if you are thinking about the blocked funds in this country or whether you are thinking of the actual United States currency.

Mr. SUNDSTROM. All the currency that might be hoarded by all foreigners.

Secretary SNYDER. I do not know how we could go about even making a pretty wild guess at that.

Mr. HAAS. There is no basis for even making an estimate.

Secretary SNYDER. I would not know of any, sir, because currency is so liquid, you just have no idea of where it is. A man who gets on a boat may have $300 or $10,000 in his pocket.

Mr. SUNDSTROM. Could you give an estimate of what the blocked funds are, then?

Secretary SNYDER. We can give you what they have been reported to us to be. It runs around $2,000,000,000, I believe. That includes, though, some that we definitely know are enemy funds.

Mr. GAMBLE. Did you say $2,000,000,000?

Secretary SNYDER. Yes; that is cash and investments.

Mr. SUNDSTROM. If we know that is $2,000,000,000, it is logical to believe that the other figure I asked about runs much higher than that?

Secretary SNYDER. Oh, no; not by any means. They are not comparable at all, because this includes cash and investments.

Mr. SUNDSTROM. I see. Do you have that broken down between cash and investments?

Secretary SNYDER. We could get that information and place it in the record for you.

Mr. SUNDSTROM. I wish you would.

Secretary SNYDER. Thank you.

(The information referred to above is as follows:)

According to the most recent data available, it is estimated that the amount of property remaining blocked is divided as follows: Bank deposits, $200,000,000; securities, $1,060,000,000; miscellaneous property, including real estate, interest in estates and trusts, etc., $560,000,000; or a total of $1,820,000,000.

Your committee may, moreover, be interested in the broader question of the size of all the gold and dollar assets of foreign countries. Accordingly we are attaching a tabulation on this matter recently submitted to the Senate Finance Committee.

Mr. BROWN. Can you give me the average interest paid on all Government bonds?

Mr. HAAS. Around 2.13 right now.

Mr. BROWN. Can you give me the average interest rate on the 30th of June last?

Mr. HAAS. It was 2.11 percent.

Mr. BROWN. Now give me the average interest rate on December 31, 1945.

Mr. HAAS. About 1.97.

Mr. BROWN. Thank you, sir.

Mr. BUFFETT. Mr. Snyder, in the President's message, and again in your presentation, I find this sentence: "In order to encourage additional savings, the Government should intensify the vigorous efforts to sell savings bonds." I am wondering how appropriate that effort is when the dollars that the investor puts into those bonds are constantly deteriorating in value.

Gold and dollar assets of foreign countries as of June 30, 1947 [1]

[In millions of dollars]

Country or area	Gold	Short-term assets	Long-term assets			Total gold and dollars
			Securities	Other	Total	
Countries participating in European recovery program:						
Austria	10	----------	3	3	6	16
Belgium [2]	659	172	55	130	185	1,016
Denmark	32	52	10	24	34	118
Eire	11	18	14	26	40	69
France [3]	700	316	225	240	465	1,481
Germany	320	27	----------	----------	----------	347
Greece	20	32	5	27	32	84
Iceland	1	7	----------	----------	----------	8
Italy	60	187	14	49	63	310
Luxemburg	----------	22	5	8	13	35
Netherlands [4]	214	220	580	415	995	1,429
Norway	77	91	20	30	50	218
Portugal	390	42	12	9	21	453
Sweden	168	133	50	65	115	416
Switzerland	1,355	395	645	225	870	2,620
Turkey	191	51	10	6	16	258
United Kingdom [3]	2,360	396	600	1,425	2,025	4,781
Total, participating countries	6,568	2,161	2,248	2,682	4,930	13,659
Canada and Newfoundland	310	588	680	630	1,310	2,208
Other areas	7,122	2,577	772	888	1,660	11,359
Total, all areas	14,000	5,326	3,700	4,200	7,900	[5] 27,226

[1] Holdings of International Monetary Fund and International Bank for Reconstruction and Development excluded.
[2] Including Belgian Congo.
[3] Including dependencies.
[4] Including Netherlands West Indies.
[5] In addition, short-term foreign assets not broken down by countries include $110,000,000 of brokerage balances, $800,000,000 of estimated holdings of United States currency and claims against the U. S. Government, and an omission estimate of $500,000,000.

NOTE.—*Gold.*—Data represent total holdings of governments and central banks without regard to location.
Short-term assets.—Composed principally of deposits in American banks and holdings of U. S. Government Treasury bills and certificates.
Long-term assets.—Securities item is composed of holdings of stocks and bonds of United States corporations and bonds of the U. S. Government. The "Other" item is composed of controlling interests in United States corporations, interests in estates and trusts, and other types of property holdings. These assets vary widely as to availability and liquidity.

In 1939 I got a letter from the Secretary of the Treasury—or, my wife did, rather, on March 22, 1939—suggesting the purchase of savings bonds. I did not buy any at that time, but I laid the letter away, and I got it out the last week, and figured out what prices were then of typical foods and what prices are today, and I find that a market basket of food that I could buy for $4.96 in 1939, when I got the letter from Mr. Morgenthau, would cost me $12.68 today, and by carrying that out to a thousand-dollar investment, if I had bought the $1,000 bond in 1939 and cashed it this last week and bought groceries with it, would have been worth, in terms of 1939, about $390, or less than 40 percent on the original investment. Now, what assurance does the workingman and the fellow who trusts the Treasury today have that the same thing is not going to happen on a similar scale in the years ahead?

Secretary SNYDER. The same assurance, or probably a much better assurance, than if he had gone out and spent it and bought something. If he went out and spent it for clothes or automobiles or radios, or something of that sort, why, it all depends on what happens to that money.

Mr. BUFFETT. In 1939, if he had bought a $10,000 house, the chances are that house would be worth at least $20,000 today. But the same

$10,000 in bonds would only buy $4,000 worth of goods today in terms of 1939 prices. That is not a very good investment, by my measuring stick, and I do not think it is by yours.

Secretary SNYDER. Well, I think that we are all agreed that thrift and savings are important, and the same dollars, if you put them away in the bank, would be worth the same amount if you put them into bonds. If your advice to people is not to save money, then, of course, that is a different story. But we are trying to get folks to save money. Government bonds are just as safe as anything you could put it in. I think that is the answer to it.

Mr. BUFFETT. In dollars.

Secretary SNYDER. Sir?

Mr. BUFFETT. In dollars?

Secretary SNYDER. That is right.

Mr. BUFFETT. Is it not likewise true that in an inflated nation that those who invest in forms of cash either present or future, have a uniform faith? They all get poor?

Secretary SNYDER. Well, I would not try to answer that question.

Mr. BUFFETT. Well, I mean it is perfectly simple, it seems to me. If the dollar is deteriorating in value, and the Government persuades the trusting patriotic citizen to invest in dollars instead of things, then the Government is helping them lose their savings. That is a very real problem, I find. I mean they are asking me what kind of dollars these bonds are going to be paid in.

Secretary SNYDER. Well, the folks we sell to seem to have more confidence in the Government than you have, sir, because they are still buying these bonds in spite of the argument you put up. We do not high pressure people into buying these bonds.

Mr. BUFFETT. Well, are the shrewd and well-informed investors buying the bonds, or are they the trusting people——

Secretary SNYDER. Who believe in the Government; yes, sir.

Mr. BUFFETT. And if they wind up as the investor in 1939 did, who goes to cash his bond in 1947, they are going to feel they have a pretty shabby deal from their Government, are they not?

Secretary SNYDER. Well, they have got to measure what the Government has done for them. This is a pretty good Government to live under. I presume you have been across this summer and seen some of the conditions over there. I think that is a good investment to make in their country.

Mr. MONRONEY. The same thing would be true of life insurance, or investment in any bonds on the stock market or any building and loan, or safety deposits or savings accounts, in any banks, would it not, the same ocmplaint about depreciation of the dollar?

Secretary SNYDER. I said that a while ago, that it is as safe an investment as you can make today that is liquid. If you want to get into speculative investment, that is a different story.

Mr. BUFFETT. I did not yield, Mr. Chairman, but that is all right.

Mr. MONRONEY. I am sorry.

Mr. BUFFETT. The point is the investment in dollars in that period has taken a bad turn, and the fellow who has persuaded him directly or indirectly to put his savings in dollars instead of a house or stocks or commodities has rendered him a pretty sobering disservice; is that correct or incorrect?

Secretary SNYDER. I do not concur in any such statement, Mr. Congressman.

Mr. BUFFETT. You do not prepare statistics showing the purchasing power of the dollar as they have gone through these years?

Secretary SNYDER. I am not going to agree with any statement that investment in your Government is a bad investment.

Mr. BUFFETT. I would hardly expect you to agree, but it could be true in spite of that fact.

Mr. GAMBLE. Mr. Chairman.

The CHAIRMAN. Mr. Gamble.

Mr. GAMBLE. Mr. Secretary, would you give us for the record what is the actual potential liability of the United States Government, direct and contingent, including Government corporations, guaranties, and so forth? You can insert it in the record, if you wish. I do not expect you to have it available.

Mr. BUFFETT. Will the gentleman yield?

Secretary SNYDER. Are you talking about just our direct and guaranteed public debt?

Mr. GAMBLE. I want all liabilities, direct and contingent, including guaranties.

Secretary SNYDER. Well, our direct and guaranteed debt at this time is $259,154,526,069.67.

Mr. GAMBLE. Does that include the contingent liabilities of Government corporations, Mr. Secretary?

Secretary SNYDER. Such as what, sir?

Mr. GAMBLE. Well, Federal Housing Administration, for instance, Reconstruction Finance Corporation.

Secretary SNYDER. Well, it does on the Reconstruction Finance Corporation, but I do not know about veterans. I do not believe it includes that. You are talking about those unrecorded contingent liabilities of what it might cost us to educate the veterans and things of that sort?

Mr. GAMBLE. No; I mean direct and contingent liabilities of the United States Government as of today.

Secretary SNYDER. Well, the known ones?

Mr. GAMBLE. Yes.

Secretary SNYDER. The ones that we have got in black and white. I can tell you those. But we do not have the figures of what might grow out of guaranties.

Mr. GAMBLE. I realize that, sir.

Secretary SNYDER. Well, that is the figure I gave you. That is all the total direct and guaranteed debt as of October 31, $259,154,526,069.67.

Mr. GAMBLE. Could you put in the record a break-down of that as to the direct and contingent liabilities?

Secretary SNYDER. We have it right here; yes, sir. As of October 31, that was $83,000,000.

Mr. GAMBLE. That is the guaranteed part?

I am afraid what you are doing now is confusing the contingent

Secretary SNYDER. Yes, sir.

part, of which we have no record, with the guaranteed part.

Mr. GAMBLE. Well, somebody ought to have a record of it, Mr. Secretary.

Secretary SNYDER. Well, I do not know how they would, sir, because you do not know what action a veteran is going to take, you do not know what is going to happen——

Mr. GAMBLE. But somebody ought to know what action he has taken, and you say 83 million, whereas Federal Housing Administration is $4,200,000,000 and rapidly disappearing. There is something wrong there somewhere.

The CHAIRMAN. I think Mr. Gamble has in mind possibly, Mr. Secretary, something along this line: When we cut Reconstruction Finance Corporation back from 18 to 14 billion dollars appropriation, I think the testimony showed that they had outstanding obligations amounting to 10 or 11 billion dollars, as I recall it. What we would like to know is whether that 10 or 11 billion dollars of obligations of Reconstruction Finance Corporation is a part of the $259,000,000,000.

Secretary SNYDER. It is. That is included, because the Reconstruction Finance Corporation has to borrow money from the Treasury to make the loans. So that goes right into the debt.

The CHAIRMAN. That would not include their commitments?

Secretary SNYDER. They would not be in there.

The CHAIRMAN. Would that be true of the Veterans' Housing Administration?

Secretary SNYDER. The undisbursed part is not in that figure. That is what I say. We would have to assemble those figures, but even then we could not get the whole story, because we do not know, as I say, in the veterans field, how many of the veterans are going to take advantage of the things provided for them. But there is that contingent liability there.

The CHAIRMAN. That includes your capital investment in Export-Import Bank and in the other agencies?

Secretary SNYDER. That is in here; yes, sir.

The CHAIRMAN. Federal Housing Administration?

Secretary SNYDER. No; except their guaranteed obligations.

The CHAIRMAN. None of the insurance organizations?

Secretary SNYDER. Those are commitments of which we would have to get the total oustanding insurance to add to this.

The CHAIRMAN. We would have to add the amount of insurance by Rural Electrification Administration, Federal Housing Administration——

Secretary SNYDER. All those insured items would have to be added to this figure.

The CHAIRMAN. To determine the actual and contingent liabilities?

Secretary SNYDER. That is what I thought he was trying to get at.

Mr. GAMBLE. That is right, and it was not a trick question, sir.

Secretary SNYDER. I did not think it was. That is why I tried to clarify it.

Mr. PATMAN. You want the value of the securities, too, do you not, Mr. Gamble? If you take a liability, like the Federal Housing Administration, that certainly would not be a total loss?

Mr. GAMBLE. Oh, no.

Mr. PATMAN. We should have the assets as well as the liabilities.

The CHAIRMAN. I think probably the committee has reasonably active information on the amount of Federal Housing Administration insurance outstanding, but it perhaps has not the information with respect to some of these other agencies.

Mr. PATMAN. Mr. Chairman, some of us are members of the Joint Committee on the Economic Report. Mr. Eccles appeared before that committee this morning. I was advised that his statement contains a proposal that commercial banks be required to carry a minimum reserve in short-term securities. Have you committed yourself on that proposal, Mr. Secretary?

Secretary SNYDER. I have not seen the proposal or just exactly the formal legislation he is proposing, Mr. Patman.

Mr. PATMAN. I still do not see through this short-term interest business. That three-eighths of 1 percent, when our supply of money is three times as much as it has ever been, and with the interest rate going up—I hope you look over that again and not press it so far upward when our debt is so big and our interest is so great.

Secretary SNYDER. We have no intention to add to the cost of servicing our debt if we can help it.

Mr. PATMAN. I know your argument there sounds rather logical, that you are retiring 1½-percent and 2-percent debt, sometimes, with seven-eighths of 1 percent or 1-percent money, and that that is saving money, but you are not saving as much as you could if you had not unpegged this three-eighths of 1 percent. You see, if you had gotten that money at three-eighths of 1 percent, there would have been a great deal more savings. And I just cannot understand, when our supply of money is so enormous, and so much greater than it has ever been, why our interest rates should go up.

Mr. FLETCHER. Will you yield?

Mr. PATMAN. Yes, sir.

Mr. FLETCHER. Could it possibly be that you had to stiffen interest rates in order to move your securities?

Secretary SNYDER. Well, that interest rate was stiffened as a deflationary action. That is strictly why it was done.

Mr. PATMAN. Deflationary?

Secretary SNYDER. Yes, sir, because it tightened up the general rates in the market, which is a deflationary action.

Mr. PATMAN. Well, what you mean by tightening up is increasing the interest rates?

Secretary SNYDER. Yes. It is a reflection into the commercial field that that has.

Mr. PATMAN. I see. I was afraid that, in addition to increasing the burden on the taxpayer, it might be disturbing to other securities.

Mr. FLETCHER. Mr. Secretary, the social-security funds, are they kept separate or in the general fund of the United States Government?

Secretary SNYDER. They are in the investments, in the United States Government. Do you mean the deposits? Or just what do you mean?

Mr. FLETCHER. I mean the money which is received from collections.

Secretary SNYDER. Those come into the Treasury.

Mr. FLETCHER. It just goes right into the general fund?

Secretary SNYDER. That is right; that is, in our general balance. Of course, it is earmarked, very definitely.

Mr. FLETCHER. It is definitely earmarked for the payment of social security?

Secretary SNYDER. I mean a credit is set up on the books of the Treasury; yes.

Mr. FLETCHER. Is it earmarked, or is it just noted?

Secretary SNYDER. Well, in your accounting system, you have your pages that you credit things to from different sources. We do not put it in a sack and say, "This belongs to the social security."

Mr. FLETCHER. That is true, but I mean that money is invested in various ways?

Secretary SNYDER. The method of investing that is provided by an act of Congress.

Mr. FLETCHER. Yes. As these social-security payments have to be made to the citizens, is this account kept intact for that purpose?

Secretary SNYDER. The account in the Treasury?

Mr. FLETCHER. Yes.

Secretary SNYDER. It is a trust fund.

Mr. FLETCHER. It is a separate trust fund; is that correct?

Secretary SNYDER. That is right; yes, sir.

Mr. FLETCHER. And the receipts are credited and from that fund the money will be paid to these citizens as they, under social security, are entitled to it?

Secretary SNYDER. That is correct, and if it requires the sale of some of the securities that are in that fund, that would be done. But as the funds accumulate, they are invested as prescribed by Congress.

Mr. FLETCHER. Have some studies been made to see what the demands will be on that social-security fund over a period of years?

Secretary SNYDER. I think the Social Security people could give you the latest and most accurate information. They are continuing to study those anticipations.

Mr. SMITH. Mr. Secretary, what amount of Federal securities do the Federal Reserve banks hold at the present time?

Secretary SNYDER. $22,000,000,000.

Mr. SMITH. $22,000,000,000?

Secretary SNYDER. Yes, sir.

Mr. SMITH. All of that amount of credit has found its way into the banking system in the form of deposits or circulating currency; is that not correct?

Secretary SNYDER. It results in that. If the bank buys them, they pay somebody something for them, which puts money into their hands.

Mr. SMITH. Then, your answer to my question is "Yes"?

Secretary SNYDER. If you will restate the question, so that I understand it——

Mr. SMITH. Does not all the credit created in the Federal Reserve banking system, by the sale of the Government to the banking system of Government securities, find its way ultimately into the banking system and into the stream of circulating currency?

Secretary SNYDER. If the source of the purchase is from the banking system; yes, sir. If it is from an insurance company, it would have the same effect.

Mr. SMITH. What percentage of those securities has been sold to commercial companies? What percentage of them has gone to the commercial banking system?

Secretary SNYDER. You mean what percentage of the $22,000,000,000 now in the Federal Reserve System was bought from banks?

Mr. SMITH. Yes.

Secretary SNYDER. It is all bought in the open market. We just do not have a breakdown, Congressman.

Mr. SMITH. As a matter of fact, you have about $7,000,000,000 in the commercial banks of that sort of credit, and $22,000,000,000 in the Federal Reserve System, and around $100,000,000,000 of what is substantially Government printing-press money in circulation; is that right?

Secretary SNYDER. We have something over a hundred billion dollars in the money supply, yes.

Mr. SMITH. It is substantially Government printing-press money, is it not?

Secretary SNYDER. Government investments.

Mr. SMITH. You would not say that it is Government printing-press money?

Secretary SNYDER. No, sir; I would not. I would not describe it that way.

Mr. SMITH. Will you assert to this committee that it is not, in effect, precisely the same as Government printing-press money?

Secretary SNYDER. Why, no; it is not, because it is an investment in your country.

Mr. SMITH. You will assert that it is inflationary?

Secretary SNYDER. That volume at this time; yes.

Mr. SMITH. So you have about $100,000,000,000 of inflation in the commercial banking system and in circulation, and is that not the cancer that is eating at the heart of America today? Why do we not get down to brass tacks here and find out what is wrong with the patient, and handle him from that standpoint?

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Dr. Talle.

Mr. TALLE. On page 5 of your statement, Mr. Secretary, you have a quotation from the President's recent message to the Congress:

> In order to encourage additional savings, the Government should intensify its vigorous efforts to sell savings bonds.

I would like to propose another sentence there that might assist in knocking down some sales resistance, and this is the sentence:

> And the Government promises to use the money so borrowed with the same degree of care as that exercised by the most frugal United States taxpayer.

Secretary SNYDER. Well, you will have to get the President to amend that. I cannot tamper with his language.

Mr. TALLE. Perhaps you will help me.

The CHAIRMAN. Mr. Secretary, would it be convenient for you and your witnesses to come back this afternoon at 2 o'clock?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. In the meantime, we have a few minutes, and I will propound a few general questions and if you are not prepared to answer them, you may be this afternoon.

These recommendations which you have made, would they be necessary if we had price control?

Secretary SNYDER. I beg your pardon?

The CHAIRMAN. Would it be necessary to follow your recommendations if we reenacted price control?

Secretary SNYDER. Would these recommendations be necessary?

The CHAIRMAN. Yes.

Secretary SNYDER. I think so, sir. We have been proceeding on the basis of providing savings bonds to fill a necessary need for people to put away their money to use at some future date. This would provide additional restraint throughout the inflationary period. Of course, it could be flexible and could slow down as the inflationary pressures came off.

The CHAIRMAN. You made the general statement that you would like to see a situation whereby there would be a demand for all of this production. That, of course, contemplates extremely high production and extremely high income. Are we in accord that perhaps the panacea for our monetary and economic ills lies in increased production?

Secretary SNYDER. I think I stated a while ago, Mr. Chairman, that I did not want to get into the discussion as to the merits of installment buying and selling. I did not want to do that here, because that is a pretty broad field, and a pretty intensive study must be given to the effects of an excess of that type of credit on the long-range economy.

The CHAIRMAN. I did not have in mind consumer credit any more than anything else. The general statement that probably all of our economic ills stem from the fact that we have extremely high purchasing power and a shortage of sufficient goods to meet the demand incident to the higher purchasing power. You agree, undoubtedly, with the general idea that if we had sufficient production to reasonably meet that demand, that it would not be necessary to put these or other irritating controls into effect?

Secretary SNYDER. If we had sufficient production to meet all of our demand; yes.

The CHAIRMAN. So we might say that it can be pinned down to the fact that production is the key to the solution of our economic problems?

Secretary SNYDER. To some extent. There are some variations there, Mr. Chairman.

The CHAIRMAN. Would you ask for any of these controls—I do not want you to speak for the President, but I assume that you do speak for the President under the over-all program—do you think that you would have to legislate any of these controls if we had production sufficient to reasonably meet our demands?

Secretary SNYDER. Both domestic and foreign-aid program?

The CHAIRMAN. That is right.

Secretary SNYDER. That is correct.

The CHAIRMAN. Our objective, then, should primarily be to find ways and means of getting the production; that is right, is it not?

Secretary SNYDER. That is correct.

The CHAIRMAN. We have to be very, very careful not to do anything to discourage production, because, of course, that would have a very disastrous effect, would it not?

Secretary SNYDER. At the same time, however, we do not want to get to overproducing, in certain lines, which might backfire on us. That is the point I referred to when I said that that is not the sole answer to it. We might overproduce in some lines in attempting to meet this emergency, and that might have a reaction later on which would be undesirable. But, generally speaking, what you have just said I agree with; yes, sir.

The CHAIRMAN. Well, have you had in mind that you would be in favor of giving the Federal Reserve the permanent authority to raise, without limitation, the reserve requirements?

Secretary SNYDER. As I understand that proposal, I would not favor it, because I do not think it would accomplish the purpose to which it is aimed.

The CHAIRMAN. Do you think it would be necessary, as a permanent authority, to create what has been termed by Mr. Eccles a secondary reserve?

Secretary SNYDER. Well, I do not want to talk about something with which I am not familiar.

The CHAIRMAN. Perhaps I should not bring that into the picture right now. But is that something that is found necessary in our banking structure? We have never had it before. Is that in the category of an emergency measure, or should it be a part of our banking structure permanently?

Secretary SNYDER. If it is a proposal that he outlined in the 1945 report, I do not find myself in agreement with the accomplishments that might ensue from putting such into effect.

The CHAIRMAN. In addition to encouraging production as much as we possibly can, of course, I suppose we all agree that we should do what we can to otherwise remove inflationary pressures. That is why you are discussing the bond situation here today, I presume.

Secretary SNYDER. Yes, sir.

The CHAIRMAN. How much do you think interest rates influence the availability of money and credit?

Secretary SNYDER. On the inflationary side?

The CHAIRMAN. On the inflationary side.

Secretary SNYDER. Well, it is rather negligible, in my opinion, right now. If a man is going in to borrow money for inflationary purposes, the interest rate he pays is not going to be a deterring part of his consideration, I do not believe. On the over-all picture, higher interest rates usually are a damper to increased credit. That is true. But we are talking about an inflationary situation now. I have considerable doubt.

The CHAIRMAN. We have been asked to restore credit controls. We will be asked, I assume, to give the Federal Reserve some additional power with respect to imposition of reserve requirements, and other recommendations have been made to slow up the velocity and reduce the volume of credit. In what more effective way could that be done than by raising interest rates and making the money a little harder to get?

Secretary SNYDER. The trouble is that the legitimate business operators would be penalized and this might affect production adversely. On the other hand, speculators don't pay too much attention to small changes in rates and they would probably be able to get all the credit that they needed.

Of course, in general, increases in the rates of interest do tighten up the bank-credit situation and so have a deflationary effect. I was just thinking about particular types of cases.

The CHAIRMAN. I do not want to follow this through to your embarrassment or the embarrassment of the over-all study, but it seems to me that what you are saying is that the increase in reserve requirements and the increase in discount rates has little or no

influence upon the volume and velocity of credit and, therefore, it is not an essential control to stop the inflationary trend.

Secretary SNYDER. I will discuss that with you under other circumstances, if you wish. That has a bearing on another phase, Mr. Chairman.

The CHAIRMAN. If we follow that thought a little further, to get these bonds out of the banks, what would be your opinion of a program accompanying a bond sales program to sell long-term bonds to the public and increase the amount of short-term holdings by the banks, encourage them to buy with perhaps a slight increase in interest rates?

Secretary SNYDER. We could use the savings bonds sales to reduce the bank-held debt.

The CHAIRMAN. Provided your program was successful?

Secretary SNYDER. That is correct.

The CHAIRMAN. Would we not guarantee that your bond program of bond sales to the public would be successful if we increased the interest rate on the bonds we wanted to sell to the public? Would we not be sure it would be a success then and would we not be sure that there would be a syphoning out of the banks about the same amount of bank debt?

Secretary SNYDER. We must bear in mind, though, the over-all cost of the debt and any adjustments we made in our bond interest rates or maturities have to be measured against that over-all debt management problem and the cost of it. We must consider very carefully, as I said in my testimony, that one-half of 1 percent average increases the cost of handling the debt $1,250,000,000 each year. So we must give some careful consideration to that.

The CHAIRMAN. It seems to me, then, that we would have to balance the depreciation and the value of the currency against the volume of holdings by the public which cannot be monetized; is that correct?

Secretary SNYDER. The greater volume we get into private hands, of course, helps stabilize that situation.

The CHAIRMAN. And if we get sufficient volume into the hands of individuals, that might completely offset the influence of any billion and a half dollars increase in the debt and perhaps might stop the inflationary trend, if you completely offset the inflation which the increase in the debt would have incident to the rise in interest rates?

Secretary SNYDER. We would not increase the debt by selling savings bonds.

The CHAIRMAN. No, I think we understand each other. The debt would be increased a billion and a half dollars, you say, by the increase in interest rates.

Secretary SNYDER. If we went up one-half of 1 percent average over the whole debt.

The CHAIRMAN. Yes. Now, might that not be completely overcome by increasing the volume of Governments held by individuals, the influence of the increase in the debt?

Secretary SNYDER. The increase in the debt held by private individuals is always a stabilizing influence because there is no great big volume appearing on the market, unless there is just a sudden collapse of confidence in the Government.

But if you have a large amount of Government obligations held in banks, which are likely to be put on the market at any time, why, that is another element in the picture, of course.

Mr. MONRONEY. Will you yield?

The CHAIRMAN. Yes.

Mr. MONRONEY. Would not the fact, if you increased the rate of interest payments to private individuals, result in the cashing in of the E bonds, which bear the lower rate, and transferring that same debt to the higher rate, because, bear in mind we have pegged these bonds at a hundred cents on the dollar and they can be cashed in at any time and a fellow would just say, "I am going to get the higher rate bond," so you would not actually shift the debt?

The CHAIRMAN. Well, the E bonds are known to be short-term bonds. I am speaking now of an issue of long-term bonds which might be sold to the public.

Well, I think we have gone about as far as we can at this time.

We will recess until 2 o'clock.

(Whereupon the committee recessed, to reconvene at 2 p. m.)

AFTERNOON SESSION

Present: Hon. Jesse P. Wolcott (chairman) presiding, also present: Messrs. Gamble, Smith, Kunkel, Talle, Sundstrom, McMillen, Cole, Scott, Banta, Fletcher, Foote, Spence, Brown, Patman, Monroney, Folger, Hays, Riley, Buchanan, and Boggs.

The CHAIRMAN. The committee will come to order.

We will resume with the testimony of Secretary of the Treasury.

Mr. Secretary, would you suggest that we give any consideration to curtailing the activities of the other agencies of the Government which are creating credit and making loans?

Secretary SNYDER. Well, I have made no studies on that particular point, Mr. Chairman.

The CHAIRMAN. You are not prepared to make any recommendation along those lines?

Secretary SNYDER. No, sir; not at this time.

The CHAIRMAN. Would you prefer that we go into this question of consumer credits with Mr. Eccles?

Secretary SNYDER. Yes, sir, I would. They have the background and the figures on it.

The CHAIRMAN. Do you care to make any statement on the effect which large purchasers for foreign accounts during the interim and long-term relief program might have on prices?

Secretary SNYDER. I think that the Departments of Agriculture and Commerce are going to discuss that phase of it with you, Mr. Chairman.

The CHAIRMAN. Very well.

Are there any questions of the Secretary before he presents his next witness?

(No response.)

Secretary SNYDER. I have just one brief additional matter to put before you, Mr. Chairman.

Mr. Vernon Clark, Director of the Savings Bond Division of the Treasury Department, will briefly outline to you what effects an accelerated program might have in producing results. If you want to hear something along that line, he is here and can discuss it briefly.

The CHAIRMAN. I think it would be most interesting.

Secretary SNYDER. Mr. Clark.

STATEMENT OF VERNON L. CLARK, DIRECTOR, SAVINGS BOND DIVISION, TREASURY DEPARTMENT

Mr. CLARK. My duties are, of course, to sell savings bonds.

When I came to Washington we had about 1,784 people on our staff, and in order to operate on an economical basis we attempted to cut our staff to the point where we have gone too far. We now have a staff of 380 people.

Of course, when we sell bonds, 380 people cannot contact all of our prospective or potential buyers, and we have to depend upon volunteers.

During the war we probably had, in round numbers, 6,000,000 volunteers. So when there was a war bond drive on, every doorbell in the Nation was rung at least once and sometimes twice. We have lost that emotional appeal and background which made it so easy for us to sell war bonds, and our volunteers, although we probably have several hundred thousand, still have to be serviced.

The main thing is the average person does not know the need of our program in the selling of bonds, and we have to service that group and reeducate it, because the average man on the street thinks that because the war is over, there is no further need to buy bonds.

We believe that with the addition of between 150 and 160 persons of the right sort that we can reactivate our entire program.

I would like to have your questions because I am so sold on this that maybe I am a little biased. I think everybody knows about as much about it as I do.

Mr. COLE. What would that additional personnel do?

Mr. CLARK. For one thing, we are trying to extend the pay-roll savings plan, because we think that is the best type of work we can do. The more you spread the debt, I think the greater interest you get in Government. Personally, I have the idea that you can combat all the isms more effectively with people holding bonds than almost through any other thing you can do, and when you contact the 20 or 30 thousand firms that have 500 employees or more, it takes a great deal of time, and effort. Also, it takes some carefully trained men to make the presentations.

Mr. COLE. Do you mean they would make personal contacts?

Mr. CLARK. Yes, you have to talk to management and get their approval. Then management probably would appoint a bond officer for their plant, and the bond officer selects other workers who assist in the sale. He may have 1 to every 10 employees, and you have to explain the entire program to them.

Mr. COLE. This would be a permanent program, so far as the Treasury is concerned?

Mr. CLARK. That I do not know. You cannot look too far ahead. Of course, I am 60 years old. I suppose it would go on as long as I live.

To give you some idea on costs, during the war, even with the help of the Army and Navy, who put on tremendous sales pageants for us, our cost, in the sale of E and F and G bonds, was 81 cents per thousand dollars. We were selling, you might say, at the retail level, because, as testified this morning, the average purchase was about an $18.75 bond per month per individual.

We have reduced our cost to 41 cents per thousand dollars of sales, which is at the rate of 1/25 of 1 percent. Such a figure is too low for us

to give the service to our volunteer workers. We have proved that fact very conclusively. You can be too economical so that you do not get your money's worth for the money expended.

Mr. GAMBLE. You got a lot of free advertising, too, during the war, did you not, which is not available now?

Mr. CLARK. Yes; but we are getting some of that free. Of course, it does not cost the Treasury anything, but it costs the newspaper publisher or the local advertiser, or the magazine publisher. If you are interested in that, I would like to tell you about it.

We estimate the newspaper space that is donated by the local advertiser or local newspaper amounts to about $6,000,000 a year. And it would have been more, but newsprint has been very scarce.

In magazines, that free advertising is running at the rate of about 9½ million dollars a year.

For radio, I do not have the figures for the entire year, but on the basis of time allotted to us for the last 90 days, it is running at the rate of $16,000,000 per year.

Outdoor billboards, I suppose, would account for another $2,000,000 worth of advertising.

Mr. COLE. The purpose of this program is your idea of the fight against inflation rather than the mere necessity of borrowing money; is that correct?

Secretary SNYDER. Mr. Chairman, let me make a statement here that I think will be of interest to Mr. Cole. When we were having a meeting of the bankers last year to get the bankers and business committee to come in and help us with the program, one of the bankers made this statement. He said, "Please do not discontinue your savings bond program. It is serving to stimulate savings in the commercial banks." So what we have been doing for the last 2 years is serving a very fine purpose.

We are now moving into a different phase of it. If we accelerate it, it is for the puropse of combating the inflationary pressure. We would not think, normally, of accelerating this program at this time, if it were not for the fact that it might serve as an anti-inflationary measure.

Mr. CLARK. That is about all I have to say on the publicity end of it.

The CHAIRMAN. May I ask you, Mr. Snyder, in what manner the purchase of E bonds adds to the volume of savings in commercial banks.

Secretary SNYDER. In what manner it adds to the volume?

The CHAIRMAN. Yes.

Secretary SNYDER. Is this question in connection with my statement?

The CHAIRMAN. Yes.

Secretary SNYDER. The banks said that it stimulated savings in the banks.

The CHAIRMAN. Does that mean it would have a psychological effect?

Secretary SNYDER. Yes; in the way it was presented, through the advertising, and in the way our people around the country were presenting it to the public, and the effect of the pay-roll savings plan, the people taking part in that and talking about it at home, and the individual who bought bonds talking around among his neighbors

stimulated people going into the bank and starting a savings account and beginning to save money. That was the effect of it.

The CHAIRMAN. Then you do not want us to imply from what you said that there is any direct relationship between the purchase of bonds and the increase in savings?

Secretary SNYDER. No; but the fact was that we were not in competition with private business. That was the point I wanted to bring out.

Mr. CLARK. Mr. Chairman, I was here this morning and you said that production was a rather important thing. It is very interesting to note that in these pay-roll plants—that is, the factories which have the pay-roll savings plan—absenteeism is cut down. Once a man gets a little saving ahead, he wants to increase that saving, and he does not lay off so often.

Another important thing is that it cut down accidents. You will perhaps wonder about that, but it seems as though the average man worries or gets his mind off his work because of some financial worry. I think they tell me the wife is the second worry. But when his mind is clear, and he has no financial worry, he is paying attention to his machine operation and does not have as many accidents. That was proved down here at the navy yard where the accidents were reduced about 16 percent after the introduction of the plan.

The CHAIRMAN. Have you any program outlined at the present time, or any drive, that you expect to put on shortly to increase the sale of bonds?

Mr. CLARK. Yes. We find——

The CHAIRMAN. Will you give us an outline of what you intend to do?

Mr. CLARK. We find that about twice a year we have to have a peak promotion. We cannot keep our volunteers in the harness all the time. We get them out to work for us in two different periods. The next year we will have three peak promotions.

We already have a promotion plan going into effect on about the 15th of January which will feature pay-roll savings. In other words, we are going to try to contact every plant of sufficient size and reactivate the old plan, if they had it, or if it has been thrown out, as many were after the Victory loan, reinstall it. That takes a tremendous amount of effort and work, and considerable printing, along with magazine advertising, newspaper advertising, and radio advertising, all keyed for pay-roll savings.

Later on in the spring there will be a campaign that is going to be sponsored largely by the retailer, who, at local level, will urge the people to buy bonds, rather than even to buy their merchandise. The far-sighted retailer believes it is good business on his part to promote the sale of savings bonds to build up a future source of buying power.

In the fall we will probably go back to the bond-a-month plan, which is a constant thing. There will be a promotion plan then to take care of the agriculture money which comes in in rather large chunks. You generally have to tap the man on the shoulder to make the agriculture sales.

You understand that newspaper advertising and regular advertising will go on just the same, except that there are peak periods when we will get the volunteer to make many of our calls.

The CHAIRMAN. I think the Secretary testified this morning that at the peak of the war effort you had 1,800 people engaged in these programs, in these selling drives, and that now you have about 400. Can you give us some estimate as to the number you are going to need this year?

Mr. CLARK. Added to our staff, between 150 and 160.

The CHAIRMAN. That you will need?

Mr. CLARK. In addition to the 380 we now have; yes, sir.

The CHAIRMAN. And your authorization for appropriation would be for their salaries and expenses and for what other expenses?

Mr. CLARK. There is considerable additional printing material needed to service our volunteers.

For instance, on a retail program we have to have that program very well outlined in brochure form so that when it is passed out to the retailer, everything will be laid right on the line in front of him. He can even tear out the pages to give to his window decorator, and instructions to his advertising manager, to the merchandise manager, and so on. That all costs money to get together. But it does not amount to anything when you think of the tremendous results we will get in return.

But we have to make it simple and clear, and we have to supply it.

The CHAIRMAN. Can you give us an estimate as to how much you are going to ask for, or might ask for, in the budget for this purpose?

Mr. CLARK. For the next year?

The CHAIRMAN. Yes.

Mr. CLARK. $4,600,000.

I might tell you that that is an increase from $2,900,000 to $4,600,000.

The CHAIRMAN. $4,600,000 is not new money?

Mr. CLARK. No; it is just an additional $1,700,000.

Mr. GAMBLE. These bonds which you sell this way, what do you do with the proceeds of those sales? Do you retire bonds coming due?

Secretary SNYDER. The proceeds of these bond sales go into the general balance of the Treasury, and we use that balance, when we have it, in excess of the need for current operation, to retire the bank-held debt.

Mr. GAMBLE. And that varies, of course, from time to time?

Secretary SNYDER. With the volume of cash we have on hand and the demands for current operations; yes, sir. That controls it.

Mr. TALLE. Mr. Chairman.

The CHAIRMAN. Mr. Talle.

Mr. TALLE. Mr. Clark, will you tell the committee briefly of your work during the war?

Mr. CLARK. I looked after the sale of bonds in Iowa. I might say for Dr. Talle's benefit that Iowa now exceeds the quota for the year to a greater extent than any other State in the Nation.

During the war bond campaign, I was asked to come down and succeed Mr. Ted Gamble. Why I did it, I do not know. It was a challenge. Sometimes I regret that I did because it was a tremendous amount of work. But I have enjoyed it and I have had wonderful treatment from everyone.

Secretary SNYDER. I might say Mr. Clark's salary for this work does not add a great deal in income tax. He works for a dollar a year.

Mr. CLARK. They even cut that out. I would like to answer something that Mr. Smith asked for this morning. When you said that you would like to know what the salaried worker or what the wage earner bought—was that your question?

Mr. SMITH. What the ratio is between the wage earner and the salaried worker.

Mr. CLARK. We would like to know that, but you understand we would have to get that information from the factory owner or operator, and he has had so many reports required of him in recent years that he resents any new ones, and we hesitate to have him break down his reports too much for very obvious reasons.

Mr. SMITH. The reason I would like to have that—and I think it would be of public interest—is because the working people are the ones suffering most from the loss of value of Government securities and our money, and I think we ought to know about what percentage of loss is being borne by these working people, for whom everybody's hearts are bleeding so much.

Mr. CLARK. We would have to get that from the factory operator.

Mr. SMITH. Do you not think that that would be a pretty valuable thing to have?

Mr. CLARK. It would be nice to have, but I would hesitate to jeopardize our program by going out and asking every manufacturer, would he please add a little bit more to this report. But I think it is close enough to know that most of it on the pay-roll savings is from our factory worker and I think, as Mr. Tickton told you this morning, it is about $1,100,000,000 a year.

Mr. SMITH. You think it comes mostly from the wage earners?

Mr. CLARK. In our pay-roll savings; yes, sir, I do.

The CHAIRMAN. Mr. Snyder, I do not know whether you want me to go into this now, but I cannot get out of my mind this interest rate situation which we dwelt on briefly this morning. Have you a table which would give us the average interest rates? We had this testimony, I think, earlier this year, and I would like to bring it up to date. Do you have the average interest rate paid by the Treasury in 1926, 1929, 1939, 1946, and at the present time?

Secretary SNYDER. I can get that information for you.

The CHAIRMAN. Do you happen to have that here?

Secretary SNYDER. We have it here back to 1938 and will try to get the rest for you.

At the present time it is 2.1 percent average.

Mr. PATMAN. Is it 2.1 even or 2.11?

Secretary SNYDER. 2.128.

For what other years did you want it, Mr. Chairman?

The CHAIRMAN. Do you have it as far back as 1939?

Secretary SNYDER. We are going all the way back for you. Just name the dates. That is as of today.

The CHAIRMAN. What was it in July of 1946?

Secretary SYNDER. July of 1946?

The CHAIRMAN. Yes.

Secretary SNYDER. I have it for the end of the fiscal year, but not for the month.

The CHAIRMAN. That is all right.

Secretary SNYDER. 1.996 percent.

The CHAIRMAN. 1939.

Secretary SNYDER. 2.6.

The CHAIRMAN. That was before our war financing, was it not?

Secretary SNYDER. Yes. In 1939 it was 2.6 percent.

The CHAIRMAN. 1929.

Secretary SNYDER. This is as of June 30, each time now—3.946 percent.

The CHAIRMAN. And in 1926?

Secretary SNYDER. 4.093 percent.

The CHAIRMAN. Up to July of this year, the average interest rates were going down?

Secretary SNYDER. What was that?

The CHAIRMAN. From July 1946, it has gone up from 1.996 to the present rate of 2.128?

Secretary SNYDER. That is correct.

The CHAIRMAN. To what do you attribute the increase in average interest rates?

Secretary SNYDER. Well, I would have to take the maturities and see the proportion of long maturities to short maturities. That would have a bearing on the average cost.

Mr. COLE. Mr. Chairman, may I interrupt? Did I not understand this morning, Mr. Snyder, that that was attributed to the direct policy of the Treasury, the rise in interest costs?

Secretary SNYDER. No; you are mistaking what I said about the short rate, that we did increase the short rate some to try to correct——

Mr. COLE. That was not the over-all interest rate?

Secretary SNYDER. No; that was just the short rate that I was talking about this morning, to try to get an actual market for those bonds. That three-eighths of a point interest was an artificial rate, because the minute those were offered, they found themselves in a relatively short time back in the Federal Reserve bank and it was not a market rate. So we were trying to move it up to actually find a market rate for those short terms.

The CHAIRMAN. Would you be in a position to tell us, or do you want us to get this information from the Federal Reserve——

Secretary SNYDER. May I finish answering the question? You asked a while ago what caused this interest rate to go up.

The CHAIRMAN. It went down.

Secretary SNYDER. It has gone up. I thought you were trying to find out why it went up.

The CHAIRMAN. No; I was trying to find out why this rate progressively declined until July of this year.

Secretary SNYDER. Because of the large volume carried in short terms.

The CHAIRMAN. You do not attribute that primarily to the confidence the people had in Government credit?

Secretary SNYDER. There was a movement of higher-rate bonds which were maturing. As those matured they were refunded in lower-rate bonds. That has been going on for a long time, you see, and that was one contributing factor. Then, of course, the larger volume of bonds too helped to bring the average rate down.

The CHAIRMAN. At the same time the volume of bank loans was pretty low, was it not?

Secretary SNYDER. When?

The CHAIRMAN. At the same time, we will say from 1929 on, the volume of bank loans has been pretty low?

Secretary SNYDER. Yes, from the early thirties up until 2 years ago.

The CHAIRMAN. We might propound the question: Why was the volume of bank loans low? Was that due to Government financing, or Government loans, or the Government making available the credit that we used to make available through the banks?

Secretary SNYDER. No; that was not so during the latter war period. A great deal of it was due to the fact that the Government was the chief customer, and was advancing money on contracts which made it unnecessary to borrow a great deal of money from the banks. Manufacturers were operating without the necessity for borrowing money, because of their curtailed operations outside of the Government field, and for that reason there was not the demand for bank loans during the war period.

The CHAIRMAN. Do you think that the activity of the Government in the field of credit generally has had any influence on the volume of bank loans?

Secretary SNYDER. You mean in decreasing them or increasing them?

The CHAIRMAN. Decreasing them, or holding them down.

Secretary SNYDER. No, sir; I do not think so.

The CHAIRMAN. You do not think so?

Secretary SNYDER. Certainly not in late years.

The CHAIRMAN. When business could come to the Government and get loans for agriculture or industrial purposes, for, we will say, 5 percent, what influence would that have upon the rate of interest which the banks asked for comparable loans?

Secretary SNYDER. My personal feeling has been that the Government should never get to be competitive with private business, when money was being offered at a comparative rate of interest.

The CHAIRMAN. How much has Government competition had to do with holding down interest rates?

Secretary SNYDER. Well, it might have had a material effect in holding down interest rates; yes.

The CHAIRMAN. What affiliation, therefore, is there between low interest rates on commercial loans and the low interest rate at which the Government gets its money?

Secretary SNYDER. Well, of course, with this present debt, there is a direct relationship. That is, as long as we are managing this debt on a low interest rate, it is going to have a bearing on the commercial rate.

The CHAIRMAN. What has been the policy of the Treasury and the Federal Reserve—if you can speak for the Federal Reserve—with respect to holding interest rates on commercial paper down because of the influence of those interest rates on Governments?

Secretary SNYDER. Well, that comes in the field of Federal Reserve operation, and I would prefer to let them testify on that.

The CHAIRMAN. You do think there is an affiliation there, do you not?

Secretary SNYDER. There is a relationship; yes, sir.

The CHAIRMAN. Of course, if there is, at the present time, even though it might have been justified when we were in a depression, might

not that be an influence now in favor of a "cheap money" market? Cheap credit?

Secretary SNYDER. It would have a bearing on it; yes, sir.

The CHAIRMAN. Why can we not reverse this situation and fix it a little bit by increasing interest rates?

Secretary SNYDER. You are getting on delicate ground for me now. We have got to bear in mind the cost of managing this debt. I think you folks in Congress would not feel too happy if the cost of paying the interest on the debt was run up too much above its present level, or we would have to go right back into higher taxes. That is a continuing concern of mine, sir.

The CHAIRMAN. Personally, I do not contribute to the idea that we must have an inflation in order to carry the national debt. Do you think that is true?

Secretary SNYDER. I certainly do not want to think that, sir. I think we can overcome this inflationary trend.

The CHAIRMAN. Where is the golden mean? Just enough inflation to carry the debt and at the same time allow a certain amount of stabilization?

Secretary SNYDER. Well, that is a difficult balance, I agree with you.

The CHAIRMAN. Is it possible to put your finger on any particular figure?

Secretary SNYDER. I do not think that you could draw too fine a line, Mr. Chairman.

The CHAIRMAN. I suppose probably that should be our objective, should it not?

Secretary SNYDER. If we could arrive at that, it would be very interesting, but we have got to study this each day and each month, as to cause and effect, and try to manage the debt within the limitation of the cost of servicing it.

The CHAIRMAN. What bothers me is this endless chain of having to keep Government interest rates down in order that we might finance the debt without increasing taxes, and at the same time realizing that the cheap rates on our money are a decided inflationary pressure.

Secretary SNYDER. It is a real problem.

The CHAIRMAN. I think we would all like to find the answer to that.

Secretary SNYDER. I would like to.

The CHAIRMAN. Can you help us out?

Secretary SNYDER. I would like to try to help you, sir.

The CHAIRMAN. I do think in your statement, Mr. Snyder, you have recognized that there is a rather direct relationship between low interest rates and easy money and volume of credit that results from it. On page 3 of your statement, in the last paragraph, you say:

> To minimize bank credit expansion, restrictive measures have been applied to the money market by the Federal Reserve System and the Treasury. This has been reflected by a rise in interest rates and a better balance between short- and long-term rates.

Now, was the increase in the average interest rates between July 1946 and the present time for the purpose of restricting the availability of credit?

Secretary SNYDER. I did not understand the question.

The CHAIRMAN. Was the increase in the average interest which you paid on Government obligations between July 1946 and the present

time, predicated upon a policy of restriction in the money credit market?

Secretary SNYDER. No; the increase in cost during that period came about through the terminal-leave bonds, the accrual on the savings bonds—you see each year there is some accrual on those—and then because of some special issues that were issued to meet the trust account requirements of the social security and things of that sort. We had to move into longer term bonds which bore a higher interest rate, and that tended to bring the average cost up.

The CHAIRMAN. Do you have any figures by which we might compare the average on isolated loans?

Secretary SNYDER. Yes; we can show you the volume of the various types of bonds.

The CHAIRMAN. I can readily understand why those special bonds might bring up your average. Eliminating those special issues, what would be your average interest rate?

Secretary SNYDER. We would have to work that out.

The CHAIRMAN. Can you tell us now?

Secretary SNYDER. Yes. The average rate on those would be 1.896.

The CHAIRMAN. The average rate on which?

Secretary SNYDER. The average rate on the marketable obligations. You said eliminate the special issues.

The CHAIRMAN. Yes; eliminate the special issues which you claim have increased the average.

Secretary SNYDER. That is right.

The CHAIRMAN. And on the remaining marketable issues you have an average of 1.896?

Secretary SNYDER. Yes; that is the average interest rate on total marketable obligations, 1.896 percent.

The CHAIRMAN. As of now?

Secretary SNYDER. Yes, sir; October 31.

The CHAIRMAN. Have you given any thought to the quarantining of any part of the bonded indebtedness in such a manner that it cannot be monetized as a deflationary influence?

Secretary SNYDER. That matter is under constant study, Mr. Chairman. I am not prepared to testify on that at this time.

The CHAIRMAN. Have you any opinion as to whether we could do something like that and remove the pressure on the value of the currency due to the quantitative theory that the higher the debt, the cheaper the money?

Secretary SNYDER. I am not prepared to testify on that at this time, sir.

The CHAIRMAN. Are there any other questions?

Mr. PATMAN. If we were to adopt a policy that would cause interest rates to be increased, thereby causing the different States, counties, cities, and villages and subdivisions to pay more interest, that would increase the tax burden in these States, counties, and so forth, and to that extent it would be inflationary, would it not, Mr. Secretary?

Secretary SNYDER. The cost would be higher.

Mr. PATMAN. And would that not throw out of joint our entire economy in a way by forcing an increase in interest rates at this time?

Secretary SNYDER. We feel there are very narrow limits in which you can consider increased interest rates.

Mr. PATMAN. Because the very minute you increase these interest rates on States and counties and cities and political subdivisions you would cause a lot of trouble, not only now but in the refinancing of the outstanding obligations, and you are not advocating, or you are not attempting to adopt any policy which will cause an over-all increase in interest rates?

Secretary SNYDER. Definitely not.

Mr. PATMAN. Definitely not?

Secretary SNYDER. That is correct, sir. And I am bearing in mind, again, the problem of debt management and the price we have to pay for the servicing of that debt.

Mr. PATMAN. Now, about quarantining this money—that is a new phrase which I had not heard before, but I think it expresses the thought that I attempted to convey this morning—personally I do not see any reason why the Federal Reserve banks should be allowed to take, say, $50,000,000,000 of this debt, buy it on the open market so as not to unduly disturb the situation, and freeze that debt where it is. It will not be inflationary because it cannot be used. If, as you state, under the existing law and rulings of the Federal Reserve Board, that could be used as a basis for credit in the commercial banks, if they wanted it, that could be answered by a change in the law and the rules and regulations, so why could we not set aside a certain part of the national debt that way to be purchased by the Federal Reserve banks—call it quarantining or anything you want to—and have it out of the way? Have you studied that question, Mr. Secretary?

Secretary SNYDER. I would not be ready to make any statement on that.

Mr. PATMAN. I beg your pardon?

Secretary SNYDER. I would not want to make a statement on that at this time.

Mr. PATMAN. Well, I will not press it, but I can see——

Secretary SNYDER. It is an interesting approach.

Mr. PATMAN. If you decide to put $50,000,000,000 over in the Federal Reserve banks, it could be done safely. I will admit that it is not exactly orthodox, according to the thinking of the leading bankers of the country, but I do not know that we should consider what is orthodox so much when we have such great problems involved as we now have, and if we were to set aside $50,000,000,000 that way, and the banks purchased $50,000,000,000 worth of bonds, and the interest would be paid by the Government just is it is now, but 90 percent of it would flow back into the Treasury, so we would be helped two ways, would we not?

Secretary SNYDER. It is an interesting approach.

Mr. SMITH. Will the gentleman yield?

Mr. PATMAN. I am through. Thank you.

Mr. SMITH. Will the gentleman yield?

Mr. PATMAN. Certainly.

Mr. SMITH. I would like to ask you this question: What would you use to buy those bonds with? To whom would you make that payment?

Mr. PATMAN. The best credit on earth, the credit of the Government of the United States. The same credit that enables the Federal Reserve banks to purchase what they hold now, $22,000,000,000 worth of bonds, which is backed not necessarily by gold, but by the taxing

power of the Government and the ability of the people to pay taxes.

Mr. SMITH. But you say the Federal Reserve banks would buy these bonds held now by the commercial banks. What are you going to use? You say you are going to use Government credit. Are you going to hand that credit over to these commercial banks, or what are you going to do with it?

Mr. PATMAN. No; the commercial banks create the money on their books with which to buy these bonds, and when they are purchased by the Federal Reserve, that much of it is wiped out.

Mr. SMITH. But you used the word "purchased." You have got to pay somebody for something you purchase.

Mr. BOGGS. Who is the witness here, Mr. Chairman?

Mr. PATMAN. You can pay them in credit.

Mr. SMITH. Then you would simply, in effect, cancel that amount of the debt; is that not what you are saying?

Mr. PATMAN. No; you transfer it. You continue to do the orthodox thing of paying interest on it, which would be paid by the Federal Reserve banks, but 90 percent of it would flow back into the Treasury, thereby benefiting the taxpayers.

Mr. SMITH. If you take away the principal, why not take away the interest also?

Mr. PATMAN. You could do it, but I think that would be too unorthodox. It should be under the guise of doing something a little more orthodox.

The CHAIRMAN. Mr. Secretary, I do not know too much about transactions on prices and the value of the dollar. I wish you could clear up this point in my mind.

First, I think you believe, and that the Federal Reserve believes, that we should keep taxes high during inflationary periods, and that by doing so we siphon off a certain amount of purchasing power which otherwise might create an inflationary pressure. Is that right?

Secretary SNYDER. I have a much more objective approach to it than that.

The CHAIRMAN. You would retire the debt?

Secretary SNYDER. Yes; and straighten out the revision of certain parts of this tax structure. It is a little unwieldy now. As our Nation grew, the obligations of Government grew, and we needed additional revenue, particularly during the war, and we just went out and found the sources and put in a tax law to collect that revenue. In doing so we got many spots where the law is inequitable. I think while we have the revenue we ought to straighten that out and balance our tax structure before we apply too much of it to a tax reduction—the margin over and above the retirement of the debt part of it.

The CHAIRMAN. It has a double purpose, then.

Secretary SNYDER. But my main objective would be the one I have just mentioned.

The CHAIRMAN. Let us confine our thinking for the moment to the influence which high taxes have on the reduction of purchasing power. I wish you would reconcile the statement you have made to the effect that high-rate municipals are inflationary.

Secretary SNYDER. If we increase the rates on municipal bonds, it would bring pressure upon our rate.

The CHAIRMAN. Mr. Patman suggested that if you increased——

Secretary SNYDER. Inflationary as to the interest rate the Government has to pay.

The CHAIRMAN. As I understood the situation, Mr. Patman contended that any increase in the rate on Governments would be immediately reflected in an increase on State obligations and municipal obligations, and the contention was that that would be inflationary.

Mr. PATMAN. Just a minute, Mr. Chairman.

Secretary SNYDER. I was thinking in terms of inflationary cost.

Mr. PATMAN. To the extent that an individual collects more interest from these different States, cities, counties, and so forth, they would have more buying power to compete in the scarce markets.

Secretary SNYDER. I was not testifying to that.

The CHAIRMAN. That is the point I was going to make.

Secretary SNYDER. I was not testifying to that. I was thinking in terms of inflating the servicing of the debt.

The CHAIRMAN. My thought was that, by increasing the interest rate on State obligations and municipal obligations, you would have to raise your State and municipal taxes to service that increase in debt, and you would be siphoning off a proportionate amount of purchasing power, would you not? That would be under the theory that if we keep taxes high we siphon off purchasing power. And, in keeping with that philosophy, we should increase taxes to siphon off purchasing power?

Secretary SNYDER. If it serves that purpose, fine, but I have more objective uses to which to put taxes than to that particular one, Mr. Chairman. I wish to pay off the bank debt.

Mr. PATMAN. Yes; you would siphon it off for one group and give it to another group, but in the end there is more purchasing power.

The CHAIRMAN. I do not follow you on the increase in purchasing power. That would take from the purchasing-power pool the same amount that you take away in taxes. It is a constant refund, thereby influencing the state of credit.

But perhaps we had better leave any further discussion between us on that for an executive session.

Are there further questions of the Secretary?

(No response.)

The CHAIRMAN. Mr. Secretary, I understand that the members care to have you come back. We can make arrangements at your convenience.

Secretary SNYDER. I or any of my staff will be available at any time your committee wishes us to come up here.

The CHAIRMAN. Thank you very much.

Secretary SNYDER. Thank you and your committee for a very courteous hearing.

The CHAIRMAN. We have with us now Mr. Oscar L. Chapman, Acting Secretary of the Interior. Mr. Chapman, I understand you are taking Mr. Krug's place, who is otherwise engaged.

Mr. CHAPMAN. That is right, Mr. Chairman. Mr. Krug asked me to express his regrets that he could not be here.

The CHAIRMAN. I understand you have a statement, Mr. Chapman?

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. You may proceed.

STATEMENT OF OSCAR L. CHAPMAN, ACTING SECRETARY OF THE DEPARTMENT OF THE INTERIOR, ACCOMPANIED BY JAMES BOYD, DIRECTOR, BUREAU OF MINES; MAX BALL, DIRECTOR, OIL AND GAS DIVISION; AND ROBERT FRIEDMAN, ASSISTANT DIRECTOR, OIL AND GAS DIVISION

Mr. CHAPMAN. In the foreword to his recent report on National Resources and Foreign Aid, Secretary Krug said:

> Without a sound world economy, the United States cannot hope to provide the raw materials necessary for the peaceful development of its economy and cannot expect to be secure in its future.

It is conversely true that without a sound United States economy the great natural wealth of the world cannot be developed to support its population in lasting peace and security. This, in effect, was the point of the President's anti-inflation message to the Congress.

The present high level of domestic consumption has created strains upon our economy that are evident in the everyday experience of scarce supply and high prices. We have an economy with exceeding flexibility and strength, but there exist today certain shortages and other inflationary pressures which basically affect our industrial production and cost of living.

These danger areas threaten our presently expanded economy and the possibility of continuously expanding production. It is to these danger areas that the President's message was directed and for which he has asked for emergency measures.

Several of these areas are within the particular cognizance and administrative responsibility of the Department of the Interior as the agency concerned with the conservation, development, and sound utilization of our natural resources.

Principally they are coal and oil. These two commodities are among the vital commodities in short supply for which the President proposed allocation and other controls to secure their most efficient use and otherwise to lessen inflationary pressures. They are also within the categories of commodities for which the President requested authority to deal with specific high prices.

For coal, we believe that transportation and export controls and steel allocations for coal-car production are necessary as a minimum, and that these measures may provide protection against acute shortages and increasing coal prices, but that coal allocation and price controls should be available in reserve in the event that less stringent measures may prove to be inadequate or that a serious stringency in coal supplies may suddenly develop.

For oil, we believe that voluntary measures on the part of the industry, the public, and the Government should go far toward alleviating the problems of shortage and rising prices, and that steel should be allocated for basic petroleum facilities, but, again, that allocation, price, and rationing controls should be readily available for oil in the event that voluntary measures fail.

The coal and oil situations are explosive in the present inflationary atmosphere, because supply and demand for coal are just barely in balance and because the demand for oil is in excess of available supplies and will continue to be in excess of supplies if the voluntary

methods suggested above do not succeed. A disturbance in either field could create serious supply and price problems. The mere authorization of stringent controls should help to deter if not to avoid such disturbances.

As a very first prerequisite, for both coal and oil, immediate provision should be made for the gathering and analysis of statistical data.

Complete data on which changing conditions can be predicted is essential to the full success of voluntary measures and would go far toward minimizing the necessity for mandatory measures, if not obviating their use altogether. But, in any event, such information would be essential to the speedy institution and the effectiveness of stringent controls, if their use should be needed. The Department's present authority and appropriation for statistical and economic work on coal and oil are totally inadequate in the present emergency situation.

First, as to coal. The coal problem is essentially a transportation problem. The shortage of coal cars has created shortages of certain kinds of coal in certain parts of the country, has contributed to the maintenance of prices at their present high level, and has created some special price problems.

Facilities do not exist for the storage of coal at the mines; it must be transported as it is produced. Railroad cars, in fact, are the principal warehouse facilities for coal.

About the middle of the year coal production dropped from the high level of production reached during the first 6 months of 1947. Since September, coal production has been increasing, however, and before the end of the year may approach the early 1947 rate of production. At the same time, since October exports have been curtailed to the extent of about 1,000,000 tons less than the exports for the third quarter of this year.

At recent rates of production, total hard and soft coal production for 1947 will be upward of 660,000,000 net tons—more than 603,000,000 net tons of soft coal and about 57,000,000 net tons of hard coal. At these rates, and with United States and Canadian consumption—Canada being considered as part of our domestic market—estimated at 627,000,000 net tons for 1947, there will remain for export about 33,000,000 net tons.

Actual exports will total about 36½ million net tons, the difference of 3½ million net tons coming from stocks.

Europe, exclusive of U. S. S. R., is believed to need approximately 110,000,000 net tons this year and next to supplement her lagging coal output. If it were not for the coal-car shortage, it is believed that sufficient coal could be produced in the United States to meet domestic demands as well as Europe's most pressing needs.

The coal-car shortage has curtailed production of the better-grade coals of coking and byproduct quality at the deep-shaft mines in the Appalachian area. It has also curtailed production of the better-quality household coals in West Virginia, and to some extent, the production of anthracite, causing temporary shortage of these coals in certain midwestern, southeastern, and northeastern areas.

Contributing to this shortage is the fact that household consumers delayed their coal purchases longer than usual this year, in resistance to high coal prices. However, with the close of the Great Lakes shipping season at the end of this month, more adequate supplies of the

West Virginia coals should be available and this shortage problem should then be substantially improved.

From time to time, and in certain localities, there are expected to be temporary shortages of these better-quality coals; but, on the other hand, heating coals of lesser quality should be available in adequate quantities in all markets. Supplies of anthracite have been increasing with the recent improvement in coal-car supplies.

The shortage of better-quality coking coals is a more serious problem and essentially a long-term problem. These coals are needed in increasing quantities for our own expanded industrial use. They are also sought by European buyers. Export-control legislation should be extended and strengthened to prevent the exporting of coal purchased at excessive prices and the exporting of high-grade coal for purposes that could be served by lower-grade coals, and to broaden the use of priorities for exports.

As the result of recent action by the Office of Defense Transportation, the coal-car situation has been improving during recent weeks. It is expected to continue to improve, but its continued improvement will depend upon an extension of the authority of the Office of Defense Transportation, which expires in February 1948, including its authority to allocate transportation facilities. Pooling arrangements at the ports would also increase the supply of coal cars considerably by reducing turn-around time. More basically, however, steel is needed for coal-car repair and rehabilitation and for increased railroad-car production. Accordingly, steel should be diverted from nonessential uses to those ends, and, for that purpose, allocation powers will be required.

Coal supply and demand appear to be coming more nearly into balance, but any serious interruption in coal production or the failure of coal prices to respond to other remedial action would create a national problem for which we are not now prepared.

In the absence of a serious deficiency in the supply of coal, it is believed that the coal problem can be dealt with through the measures mentioned—an extension of transportation controls and an extension and strengthening of export controls.

If a serious deficiency should occur, authority should be available to apply allocation controls to any or all types and kinds of coal and at any or all levels and areas of distribution.

Only in the most acute crisis situation caused either by a serious deficiency in coal supplies or aggravation of the general inflationary problem would over-all price control be required for coal, but, even in the absence of such a crisis, price controls might be needed either for particular areas or for particular sizes and kinds of coal.

Our second problem is oil.

The problem of oil is quite different than the problem of coal, and more serious. It is essentially a problem of immensely increased domestic demand and inadequate industry facilities. Actually there are three aspects of the problem.

First and most pressing is the shortage of transportation facilities—tankers, pipe lines, and tank cars—with which to move available crude oil to refineries and refined products to market. This shortage is world-wide.

Second is the scarcity of crude oil. Although known domestic reserves have increased, they have not increased in proportion to

rising demand. Imports of crude oil cannot be increased until there is an increase in the supply of tankers.

Third is the lack of equipment needed for increased exploratory and developmental work. These shortages all stem from the shortage of steel.

Current production of crude oil is running at the record high of about 5,300,000 barrels per day, which, country-wide, is at or somewhat above the maximum efficient rate of production. There is no margin. This crude-oil production, plus natural gasoline and other liquid hydrocarbons and imports, amounts to almost 6,000,000 barrels per day, which provides for domestic consumption a half million barrels per day more than in the corresponding period of 1946.

Proved reserves of crude oil are also at an all-time high—more than 21,000,000,000 barrels. In terms of current demand, however, crude reserves represent only about 11 years of supply. In 1940, when proved reserves were only some 19,000,000,000 barrels, they were equivalent to 13½ years of supply at the 1940 rate of demand.

We shall not run out of oil in 11 years. We cannot get our present known reserves out of the ground in 11 years, or in 50. Moreover, we will find much new oil in the United States. We are not, however, finding new oil as fast as we are consuming it. The net gains in proved reserves have come increasingly from extensions of known fields and revisions of estimates of their contents rather than from new fields.

More steel for oil-exploration operations will doubtless result in an increased rate of discovery, but discoveries cannot keep up indefinitely with a never-increasing rate of consumption. With a fixed number of fields to be found, and with the odds obviously on finding the easiest types first, the law of diminishing returns must sooner or later become effective.

In 1946, for the first time in history, oil and gas supplies more energy in the United States than coal, more by 564,000,000,000,000 B. t. u.'s. From 1935 through 1946 the energy supplied by coal increased 36 percent, that supplied by oil and gas increased 96 percent.

Requirements for domestic use of all major types of petroleum products have increased markedly, stimulated not only by economic forces of broad incidence, such as high national income and productive activity, but also by changes in competitive conditions between fuels. Total United States demand for 1947 will be some 34 percent above that of 1941.

As an indication of the unequal expansion in domestic demand for the major product groups, percentage gains expected for the year 1947 over 1941 are as follows: Motor fuel, 18; residual fuel oil, 34; distillate fuel oils, 68; kerosene, 46; and all other petroleum products, 43.

The number of domestic oil-burning central-heating plants will be more than 50 percent greater next winter than when the war ended. Despite warnings from Government and industry that the Nation faces a shortage of fuel oils this winter, shipments of oil furnaces in August were 17 percent higher than in any preceding month in the Nation's history.

In the first 8 months of 1947 approximately 790,000 oil furnaces were shipped for installation against approximately 300,000 in the corresponding period of 1946. The growth in oil-burning space heaters—individual stoves to heat one or two rooms—is even more

starting. The number now in use is more than double prewar level and the number delivered in the first half of 1947 was greater than the number delivered in the whole of 1946.

Diesel-oil purchases by the railroads during the first half of 1947 were 42 percent higher than in the similar period in 1946, and 92 percent of the locomotives now on order are Diesel-powered.

Fuel oil used in the generation of electric energy at public-utility power plants was 46 percent higher in the first half of 1947 than in the first half of 1946. Fuel-oil demands for shipping and for heavy industry also are sharply higher.

The trend with respect to gasoline is the same. There are now more automobiles registered than ever before and they are older and less efficient in the use of gasoline. Automobile registration is up 3½ percent from 1941, but truck registration is up 34 percent, and a truck, of course, uses much more gasoline than a car. Moreover, the number of mechanized vehicles employed in agriculture is more than double the prewar figure, so that off-the-road consumption of motor fuels this year will more than double that of the last prewar year.

So it goes from one petroleum product to another, and from one use to another. Demand now is slightly in excess of 6,000,000 barrels a day, and the end of this upward trend in demand is not in sight. There remains an enormous unfilled demand for automobiles, for homes—many of which will be heated with oil—for Diesel locomotives, and for various other oil-consuming facilities.

This year, for the first time in 25 years, we are importing practically as much oil as we are exporting. We are also exporting less petroleum than we exported prewar. The amount of petroleum being shipped to Europe is negligible, but it is critically essential to Europe's basic needs. I have the exact figure, which I will give you in a few moments.

Localized petroleum shortages are expected to occur in the United States during the coming year or more. This year, the shortages will occur east of the Rockies. These shortages will exist principally because of the inability of the petroleum industry to obtain materials, especially steel, at a sufficiently rapid rate to enable it to expand its basic plant so as to keep pace with demand.

Several steps are under way which will help to alleviate the situation. Government surplus tankers are being restored to the operational fleet as rapidly as possible. Pipe-line and tank-car construction programs now under way will contribute some measure of relief. Oil-well-drilling operations are proceeding at high levels and refineries are being built and expanded. Yet, unless steel is made available to the petroleum industry in substantially larger quantities, new demand threatens to continue to offset expansions in productive capacity.

It is vital, therefore, that more steel be channeled into the oil industry's basic facilities programs. This can be accomplished only by the allocation of steel from nonessential and less essential domestic uses.

It is hoped that the measures now under way to increase supplies, plus voluntary conservation and allocation measures on the part of the consuming public, the industry, and the Government, will generally suffice to achieve equitable distribution of available petroleum supplies, to minimize such local shortages as occur and to meet basic demands.

The availability of increased supplies of steel would go far toward assuring the success of voluntary measures. A program for the voluntary conservation of petroleum is being worked out in consultation with the petroleum industry and will be announced shortly. Moreover, many units of the industry already are allocating available supplies to assure equitable distribution among areas and classes of trade, and this program is expected to be enlarged. To be effective, however, these voluntary programs must be designed to meet the needs for oil in the order of their urgency. The proper order seems to us to be as follows:

1. The armed forces and those Government needs which are essential to orderly functioning of Government and maintenance of law and order.
2. Public utilities which serve the great mass of the people and maintain our going economy.
3. Homes which cannot use other fuel.
4. Adequate farm fuel for maintenance of highest-level crop production for ourselves and the world.
5. Oil-burning and gasoline-consuming industries and transportation equipment.
6. Insofar as possible, the pleasure gasoline which is an essential part of the American recreational pattern.

While it is not believed that the over-all petroleum situation need become so acute as to require the exercise of drastic Government controls, should voluntary measures prove to be inadequate, Government controls will be necessary.

Therefore, as a safeguard in case of such an eventuality, we believe that the President should have the residual authority to impose price controls on petroleum and petroleum products and to direct their allocation and rationing.

The measures which I have proposed for coal and oil are stop-gap measures. As necessary as they are in the current emergency, they will not accomplish the long-range objectives of ever-increasing production and an ever-expanding economy sufficiently strong to be able to adjust to recurring strains without the use of emergency measures.

For these long-range purposes, we believe that we must prepare now for an increase in the capital wealth of the Nation and for an expansion of the natural resource base which supports our economy.

The present shortage of steel, as evidenced by the shortages of coal and oil, point to the need for increased steel capacity as soon as steel can be spared from more immediately urgent uses for the construction of new steel facilities. Added steel facilities will measurably increase our capital wealth. Projects for the development of our natural resources can also increase our capital wealth—projects for the full utilization of our land, water, mineral, and other basic resources.

On these long-term projects we will have more to report to the Congress later. Mention of them now serves to put the emergency measures requested by the President in proper perspective.

Mr. Chairman, I have with me some very, I think, helpful charts on the oil situation. They are rather large and would give you some idea, if you would care to have me show them to you at this point, of this problem.

The CHAIRMAN. They do not seem to be too voluminous for insertion into the record.

Mr. CHAPMAN. These that I have are large but they will be left with you in such form that they can be included in the record.

The CHAIRMAN. Very well. You plan to leave them with us in such form as they may be placed in the record?

Mr. CHAPMAN. Yes, Mr. Chairman, I will send them up in such form.

This chart gives a bird's-eye view of the production record running from 1934 on up to the present, 1947, level, and showing how it even exceeded the estimates of both the Government and industry.

Mr. SMITH. How has it developed in relation to consumption?

Mr. CHAPMAN. I have a chart on that, too, Congressman Smith. This is the chart here.

Mr. SMITH. Consumption has gone up a little higher than your production?

Mr. CHAPMAN. Just a little all along, yes. It is just out of balance now. The production is greater, as you will notice.

Mr. SMITH. You have no charts at all showing your estimates of reserves?

Mr. CHAPMAN. I do not have it in chart form, but we have it in figures. We can prepare a chart. The reserve figures are estimated by the American Petroleum Institute, and are accepted as the most authoritative figures that are available. They are prepared by a committee of the most prominent geologists in the country each year.

As I stated, that estimate has been revised in the last couple of years due to the extension of some of the known reserve fields, and some revision of the estimates of those immediate fields.

Mr. MONRONEY. What do the two colors in the United States represent?

Mr. CHAPMAN. The under color is crude oil production, and the solid red is other oils, such as gasoline and various liquefied petroleum gases.

This next chart, Mr. Chairman, is the chart on our petroleum imports and exports, to give you an idea of how the ratio has been holding up. This chart runs from 1920 on up to 1947. The black is the imports and the red your exports. You can see how, in 1947, they are just about even.

The CHAIRMAN. To what countries do we export in the largest quantities?

Mr. CHAPMAN. Canada, I think, Mr. Chairman, is the largest, followed by France and England.

The CHAIRMAN. Still you stated in your statement that you treat the demands of Canada as a part of our domestic figures.

Mr. CHAPMAN. That is right, we have been treating Canada, both insofar as the coal figures and oil figures are concerned, as if it were part of the domestic market.

Mr. SMITH. You are still exporting oil and other products to Russia, are you?

Mr. CHAPMAN. I do not know of any oil exports to Russia at all.

Mr. SMITH. To any of her satellites?

Mr. CHAPMAN. Not that I know of.

Mr. SMITH. Are any shipments being made at all to Russia?

Mr. CHAPMAN. I would not have that figure, Congressman. Probably Commerce may have it, with its export records, but I do not know of any.

Mr. KUNKEL. Mr. Chapman, could you put in the figures on the exports to France, Italy, and the United Kingdom?

Mr. CHAPMAN. Yes; I can give you those figures.

Mr. KUNKEL. Because as time goes on, that will probably be supplied from the Middle East. That is the reason I thought it might be material to have those figures.

Mr. CHAPMAN. You are right, Congressman, and I will supply that for the record.

Mr. KUNKEL. Also any other countries to which we now export, which might logically secure future supplies from the Middle East.

Mr. CHAPMAN. I will be glad to present that. I will give you a record statement showing the shipments of oil to each of these countries, in addition to France and England.

Mr. KUNKEL. The ones I wanted were just the ones that might in the future get their supplies from the Middle East.

Mr. CHAPMAN. I will be glad to put that in.

(The charts and other documents, above referred to by Mr. Chapman appear at the close of his testimony.)

Mr. MONRONEY. Is there any substantial amount, Mr. Secretary, of the imports, that is not Western Hemisphere oil?

Mr. CHAPMAN. Practically all of that is Western Hemisphere oil.

Mr. MONRONEY. We do not know whether we will ever get any of the Old World oil or not, but we are using up the Western Hemisphere oil pretty rapidly, are we not?

Mr. CHAPMAN. Very fast.

Mr. KUNKEL. Mr. Chapman, on page 4 of your statement, you state:

However, with the close of the Great Lakes shipping season at the end of this month, more adequate supplies of West Virginia coal should be available.

What is the relationship between the Great Lakes shipping season and an increase in the supply of West Virginia coal?

Mr. CHAPMAN. Congressman, I would like to have Mr. Dan Wheeler explain that to you, because when I went over these figures myself—and I have traveled through that area so much—I wanted to know specifically in detail how that affected this area and Mr. Wheeler gave me what I thought was an extremely adequate answer and also Mr. Boyd, Director of the Bureau of Mines. Mr. Boyd, would you mind answering that question in a little more detail.

Mr. BOYD. I think we can answer that question—as to West Virginia coal.

Mr. KUNKEL. Yet you say with the close of the Great Lakes shipping season at the end of this month more adequate supplies of West Virginia coal should be available. I could not see the relationship there.

Mr. BOYD. Well, a large proportion of the coal which is shipped to the Great Lakes and thence through the ports to other parts of the country, by water, comes from the West Virginia area, and as the weather gets bad, and the ice closes the ports down, the cars are diverted back to that trade, and the coal from West Virginia can go into other markets, such as Detroit, Chicago, and the other deficit areas.

The CHAIRMAN. One reason being that they fill their inventories during the summer?

Mr. CHAPMAN. That is correct, and by the time the lakes are frozen too tight for shipping, these cars are diverted back to trade in the West Virginia area.

Mr. KUNKEL. In other words, it frees the cars to come into this area back here?

Mr. CHAPMAN. That is right.

Mr. SMITH. Mr. Chapman, you are here testifying in behalf of the Department of the Interior?

Mr. CHAPMAN. Yes, sir.

Mr. SMITH. Specifically representing Mr. Krug, the Secretary?

Mr. CHAPMAN. Yes, sir.

Mr. SMITH. And you are just filing, I imagine, this report entitled "National Resources and Foreign Aid," which was gotten out by Mr. Krug?

Mr. CHAPMAN. Yes.

Mr. SMITH. You are here supporting, then, the Marshall plan?

Mr. CHAPMAN. Yes.

Mr. SMITH. And you are here supporting a reinstitution of price controls?

Mr. CHAPMAN. Yes.

Mr. SMITH. You make the statement, on page 10 of your prepared testimony, at the bottom of the page:

> For these long-term purposes we believe that we must prepare for an increase in the capital wealth of the Nation and for an expansion of the natural resources base which supports our economy.

What do you mean by the statement "we must prepare for an increase in the capital wealth of the Nation"?

Mr. CHAPMAN. Congressman Smith, I was thinking there of the increase in steel production and of the basic production going into industry—steel is a good example—it certainly would increase the capital wealth of the country if you increase the production of steel.

Mr. SMITH. You do not mean that the capacity for production is increased?

Mr. CHAPMAN. Yes, sir.

Mr. SMITH. You mean the capacity for production is to be increased?

Mr. CHAPMAN. Yes, sir.

Mr. SMITH. Whom do you mean by "we"?

Mr. CHAPMAN. The people—industry.

Mr. SMITH. Do you refer in any place in your statement to industry-Government cooperation, or Government-industry cooperation?

Mr. CHAPMAN. Yes, Congressman Smith.

Mr. SMITH. What do you mean by that?

Mr. CHAPMAN. We prepared a very detailed answer to this question this morning, which I intended to have before you today. I do not know how to explain to you any better than using this example: If the Government reallocated the railroad cars to the proper shipment of coal, it would be in cooperation to help get more coking coal, as an example, to the steel industry. That is a question of cooperation between the steel industry people and the Government, in trying to improve that situation.

Mr. SMITH. You do not use that expression anywhere in this report to mean that the Government will finance any industrial project?

Mr. CHAPMAN. That they will do what?

Mr. SMITH. That the Government will help to finance?

Mr. CHAPMAN. No; I was not thinking in terms—and I am sure the Secretary was not—in terms of financing.

Mr. SMITH. Nowhere in your report—and you use that expression several times?

Mr. CHAPMAN. That is correct.

Mr. SMITH. Nowhere in your report have you reference to expanding the productive facilities or any of these things by means of Government financing?

Mr. CHAPMAN. I am sure that that was not the basis for the remark, Congressman.

Mr. SMITH. Do you discuss anywhere in this report present-day facilities for production as compared with past facilities?

Mr. CHAPMAN. To facilities for financing?

Mr. SMITH. No; facilities for production.

Mr. CHAPMAN. I think on page 90 of the report, Congressman, you will find a table which gives you some idea. That is as to cotton—it is not exactly a good example, but it is an example.

Also on page 79——

Mr. SMITH. Now, just a minute. On page 90, to what do you refer?

Mr. CHAPMAN. I was referring to table 80 on raw cotton.

Mr. SMITH. That has nothing to do with facilities for production. That is production.

Mr. CHAPMAN. All right, that is not a good example. Look over on page 79. I think we can more nearly answer your question there. On automobiles.

Mr. SMITH. What has that to do with facilities for production?

Mr. CHAPMAN. Well, you have to have the facilities to keep increasing your production.

Mr. SMITH. That is right, but you can also put a strain on your facilities and increase production.

Mr. CHAPMAN. Yes; you can.

Mr. SMITH. Isn't that precisely what has been done during the war?

Mr. CHAPMAN. Partly, I am sure.

Mr. SMITH. Now, Mr. Chapman, I wish you would tell this committee why you, in your report, completely evaded discussing that question?

Mr. CHAPMAN. I do not agree that it is entirely evaded, Congressman. I think we may have approached it differently from what you probably were thinking.

Mr. SMITH. I have read your report. I am sorry I do not have the pamphlet with me which I marked, but I think I could point out all of the places where you make such a claim, but which you could not substantiate. You have not, in this report, discussed at all your Nation's facilities for production, compared with what they were 10 years ago, 20 years ago, and so forth. And why have you not done so? Because, Mr. Chapman, it is outstandingly the crucial point in determining whether or not we can carry out this Marshall plan.

Mr. CHAPMAN. I think, Congressman Smith, you will find that this report has dealt principally with the basic crude raw-materials program of our natural resources more than the manufacturing and productive capacity. I think that was its basic purpose.

Mr. SMITH. But you are recommending the Marshall plan?

Mr. CHAPMAN. Yes, sir.

Mr. SMITH. Have you read—you undoubtedly have—I take it you are an economist, are you not?

Mr. CHAPMAN. No; I am not an economist. I am a lawyer.

Mr. SMITH. You undoubtedly have read some of the statistics, which have been put out recently by Cusnits and Neets and a number of other investigators, on that matter of productive facilities. Have you or have you not?

Mr. CHAPMAN. I have not.

Mr. SMITH. You have not?

Mr. CHAPMAN. No.

Mr. SMITH. You are not prepared to discuss then any of the research work that has been done in that time?

Mr. CHAPMAN. I can discuss it on the basis of this report.

Mr. SMITH. That report does not even remotely, in any respect, cover it. I have gone through it with a fine tooth comb and it does not remotely, in any respect, deal with this important question.

I have noticed, also, that the President's economic advisers have made a statement which they cannot substantiate at all, but we do not need to go into that at the present time.

Nowhere do I find in any of these three reports—the Harriman report, your report, or the Economic Advisory Committee's report—nowhere do I find any discussion of this crucial problem of productive facilities. Nowhere.

Mr. CHAPMAN. May I read you just one little statement here, Congressman?

Mr. SMITH. On what page?

Mr. CHAPMAN. This is on page 2 of the report, "Resources are flexible."

> Our war experience provides a persuasive example of our ability to surpass goals which had been thought to be set at maximum levels. Our predictions were short of our accomplishments, presumably because of our under estimates of our strength and flexibility and an inability to forsee or measure the effect of intangible factors.
>
> No peacetime economy should be expected to achieve the heights reached under the pressures of germicide wartime urgency, yet it would be folly to overlook the gigantic potentialities of the American economy, its capacities for growth and change.

Mr. SMITH. That, of course, is a general statement. It has nothing at all to do with the question that I raise here. You do not say anything about production facilities. You say nothing about percentages of increase or decrease and I am wondering why all three of these reports—I shall deal with the economic report by itself, because it is a masterpiece of deception and it is not telling the American people the truth—but this is such an important question that it seems to me you in the Department of Interior, coming here and advocating a return to rationing, black markets, shortages of goods which would eventuate, and all those things, and this immense program that is being proposed, that you ought to know something about it. I cannot discuss the matter with you, because, apparently, you know nothing about it.

Mr. CHAPMAN. Well, there seems to be a difference of opinion about his report, Congressman. The Senate committee publicly praised it as being one of the most informative reports they had received in their committee.

Mr. SMITH. Well, God bless the men who did that, so far as they are concerned.

Let me read you a statement here, and you may comment on it if you wish. I am reading from the American Economic Review. This article has been referred to by a number of other students of this subject.

It appears that for the first time in our recent history, and perhaps the first time in our entire history——

Mr. COLE. What are you reading from, Mr. Smith?

Mr. SMITH. I am reading from the American Economic Review, of April 1947, a journal of the American Economic Association.

Mr. BUCHANAN. Who wrote the article?

Mr. SMITH. It is written by Mr. Noyes. You all know Mr. Noyes.

It appears that for the first time in our recent history and perhaps for the first time in our entire history, the process of growth in reproducible wealth has practically ceased for an entire decade.

Moreover, at this writing, 7 years have already passed out of the current decade, which will end January 1, 1949. If the guesses made below as to 1944 and 1945 turn out to be justified, there has been no growth in nonwar productible wealth for the first 7 years of the current 10 years.

The startling change referred to above is confirmed and emphasized by an examination of more detailed data. In Cusnits most recent and most complete annual series for capital formation of the last quarter century, 1919 to 1943, it may be divided into two nearly equal epochs, one of 12 years, from 1919 to 1930, inclusive, and one of 13 years, from 1931 to 1943.

For the whole of the first period net capital formation amounted to 74.6 billion dollars. For the whole of the second period it had fallen to 2.6 billion dollars.

These figures include only what Cusnits now calls "nonwar net capital formation," an adjustment that applies only on public capital formation.

If we are permitted to guess at the ultimate estimate for 1944 and 1945—the last 2 years of the war—"it will turn out to duplicate approximately those of 1942 and 1943, the first 2 years of the war. Then the picture becomes even worse. Then for the whole 15-year period, from 1931 to 1945, nonwar capital consumption has exceeded nonwar gross capital formation by 9.5 billions of dollars.

Do you care to comment on that statement?

Mr. CHAPMAN. No. That is no doubt a very fine economic dissertation, Congressman, but figures and facts pertaining to facilities of production are not kept in the Department of the Interior. It is not within our function. That is within the Department of Commerce.

Mr. SMITH. Have you any such figures?

Mr. CHAPMAN. No.

Mr. SMITH. There are no such figures available?

Mr. CHAPMAN. I don't know.

Mr. SMITH. Are there any figures anywhere in the Government available to substantiate or deny this statement?

Mr. CHAPMAN. I could not tell you.

Mr. SMITH. Do you not think that you ought to find out?

Mr. CHAPMAN. Oh, we can find out; yes, sir.

Mr. SMITH. Now, what has happened during the war? We have been losing out in capital formation. I have mentioned this a great many times since I have been in Congress, but now we have reached the stage where the seed corn is becoming short, exceedingly short, and what are we going to do about it? Here you are advocating this immense program, and you do not even know yourself one thing about the most important point relative to this matter, and you have admitted it.

Mr. CHAPMAN. Corn matters are handled in the Department of Agriculture, Congressman. I am sorry; I am not an expert in that field either.

Mr. SMITH. This is not a foreign question. This is a domestic question. I am talking about domestic capital formation, but not something pertaining to things foreign.

Mr. CHAPMAN. You misunderstood me. Farm, not foreign. The farm question is an agricultural question.

Mr. SMITH. Oh, you refer to the seed corn, which is an agricultural question.

Mr. CHAPMAN. Yes.

Mr. SMITH. I see. We can get Mr. Wallace and we will have just about the same kind of testimony we have gotten here today. Just about the same kind. In other words, what your people are doing, you are misleading the American people about your ability to carry out this program, and I will leave it to the judgment of history whether that is true or not. Do not say that you are not deliberately doing it, because somebody in your Department—you have got some statistics on that matter—not the elaborate ones that I am referring to here, but it seems to me that you people ought to give the American people the truth.

Mr. BROWN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Mr. Brown.

Mr. BROWN. Mr. Chapman, I notice here you say that we will run out of oil in about 11 years. Do you not think it is very important, under those conditions, that we should develop the water power of our country?

Mr. CHAPMAN. Very much, Congressman. I think we should.

Mr. BROWN. I think we would be in a very bad fix if we do not look toward building up our water power, in view of what you say about the oil resources.

Mr. CHAPMAN. That is a very pertinent question to the question of oil and coal shortage.

Mr. SMITH. Did you not say that you did not indicate anywhere in this report that the Government is aiding in the financing of productive facilities? Now you say the Government is to help finance this program.

Mr. CHAPMAN. I am quite sure, Congressman, you will not find it in this report anywhere.

Mr. SMITH. Well, you say it now, anyway, whether it is in the report or not.

Mr. CHAPMAN. Well, that is all right.

Mr. BOGGS. Well, Mr. Chapman, do you think there is anything wrong with the Government financing some of these programs?

Mr. CHAPMAN. Not at all.

Mr. SMITH. No; because you believe in socialism.

Mr. BOGGS. As a matter of fact, Mr. Chapman, do you not think some of our water-power developments have greatly contributed to the winning of the war?

Mr. CHAPMAN. It is obvious you would not have had the power to operate the manufacturing programs of the Northwest if you had not had the great projects in the Northwest that the Government did finance.

Mr. Boggs. And development of those projects was not limited to Democratic administrations?

Mr. Chapman. Not at all.

Mr. Buchanan. And is it not true that capital formations in the last decade referred to has been because development has been along the lines of wartime economy rather than civilian economy?

Mr. Chapman. I think that is a safe assumption to make.

Mr. Boggs. As a matter of fact, is not our production greater than it has ever been?

Mr. Chapman. Yes, sir.

Mr. Boggs. I am not sure that I subscribe to the figures reported by my colleague.

The Chairman. Mr. Chapman, as I understand your presentation, you put a great deal of stress upon the necessity for conservation measures, especially in coal and oil.

Mr. Chapman. Yes, sir.

The Chairman. That is a permanent program?

Mr. Chapman. Yes, sir, Congressman; the coal and oil happen to be two of the principal natural resources with which we are dealing in the Department of the Interior, and we did put considerable stress on the conservation of those resources.

The Chairman. At the same time, it is a question of distributing our available supply so that the available supplies will have the greatest effect upon production generally?

Mr. Chapman. That is correct.

The Chairman. For that reason you advocate the allocation of steel in such a manner as to increase the production of tank cars and coal cars and so forth—coal cars and other equipment?

Mr. Chapman. That is correct. And oil-field equipment is in that category too, Mr. Chairman.

The Chairman. Yes, sir. Now, in one part of your remarks, you stated that imports just about balance exports.

Mr. Chapman. They are just about even right now.

The Chairman. That is, of oil and petroleum products.

Mr. Chapman. Yes, sir. All the petroleum products.

The Chairman. Then generally speaking, eliminating the distribution difficulties, we have been producing just about the same amount of oil or petroleum products which we have consumed?

Mr. Chapman. The consumption has now increased, as I tried to explain, sir. I think the increase began with the war period, and as most people in the industry and the Government believed, that immediately after the war there would be at least some decline in demand, but instead, since the war, the demand has risen and has increased over the peak war demand.

The Chairman. What period are you referring to when you say that imports and exports are in balance?

Mr. Chapman. I am speaking of this year. There has been a constant change in import and export. Ever since the end of the war, that is. In 1945 we were still a rather large net exporter. In 1946, the gap began to narrow, and this year for the first half of the year we were a net importer of crude oil and products, the principal product being residual fuel oil from the Caribbean.

The Chairman. The point, to hurry it along, is that we are not now producing a surplus of petroleum products?

Mr. CHAPMAN. No. We are not producing a surplus, but we have available for domestic consumption this year, over last year's availability, of a hundred million barrels a day. But even so, there is no surplus. Demand has increased even beyond that.

The CHAIRMAN. In that period, in the figures you gave us when you said that imports are balancing our exports, or vice versa, since that period, what has happened in this field of imports and exports? Are our exports greater than our imports?

Mr. CHAPMAN. I beg your pardon? Are our exports greater than our imports? For the last 2 months—I believe for the latest 2 months reported by the Commerce Department—there has been a slight excess of exports over imports. That is principally due to the fact that there have not been enough tankers available to move crude oil and products from the Dutch West Indies refineries to the east coast. That situation, I understand, is being overcome.

More tankers are being put into service by the Maritime Commission, so that we will again become a net importer within a matter of a short time.

The CHAIRMAN. Has that had any influence on the pressure for price control of oil products?

Mr. CHAPMAN. I think any time that you have a shortage of an essential product, sir, you will have pressure on prices. During the war the price of petroleum was held artificially low. Since the removal of price control, petroleum prices have begun to reflect the increases in prices in other fields.

The CHAIRMAN. Then I presume we are all in agreement that when we do not have a surplus of petroleum products, if we buy large amounts of petroleum products for export, that it has an influence on petroleum prices?

Mr. CHAPMAN. That is correct, sir.

The CHAIRMAN. To offset that, you advocate price control?

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. How extensively would you apply price control to prevent this impact which buying for foreign account would have on the price of petroleum products, and where would you apply them?

Mr. CHAPMAN. In the first part of my statement I told you I would give you that export figure.

Our export figure was 3 percent of our domestic availability figure for oil.

Now, you are asking at what level or in what way would we apply these controls, or what controls——

The CHAIRMAN. And to what extent.

Mr. CHAPMAN. And to what extent. First, Congressman, we would be extremely hopeful that it would not be necessary to apply them at all. First, we would like very much—and it is not in the process of discussion with the industry—to work out as many voluntary factors as possible, between the industry and the Government, to see if we cannot relieve some of these pressure areas now.

We are hoping that these voluntary factors will in and of themselves answer this problem. But where you have a shortage of a commodity, as we have here, and the commodity is so basic to the whole industry of America, it is obviously most likely to affect the price. Therefore we would have to move, probably, to the next level.

If the first efforts did not prove successful, we would then have to move there to the next step, which would probably be allocations. That might do it.

The CHAIRMAN. At one time you were paying a subsidy to get oil from stripper wells, were you not?

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. And you recognized that price control was a deterrent to maximum production, so we had to pay these subsidies to offset that between the price and the difference between the price ceiling and what was required to get this oil, especially from stripper wells.

Having in mind that problem, are you advocating the resumption of selective price control? Are you advocating—just to make my thought clear—the restoration of subsidies to get maximum production? Or how do you expect to get maximum production if you have price control without the payment of subsidies? That is the point I have in mind.

Mr. CHAPMAN. I had not given any thought to the question of subsidy involved in this.

The CHAIRMAN. Having in mind that we had to have subsidies during price control to get maximum production, how can we get production under price control or the threat of price control if we do not set up the machinery for payment of subsidies?

Mr. CHAPMAN. As I said, I had not given any thought to the question of subsidies, hoping, of course, that we would never have to reach the ultimate problem of rationing and pricing, and believing that allocations might meet the problem without having to apply the more drastic controls, and thinking, too, that allocation and controls of other materials which flow into the development, into the oil industry, such as steel, which I keep coming back to, would be adequate to really meet this production program and keep that in even balance.

The CHAIRMAN. Let us discuss that for a moment. You advocate steel allocation, and in accordance with your statement, I assume that you would set a quota of steel for the manufacture of tank cars, boxcars, gondolas, and so forth, and in addition to that which they are now getting for that purpose, to insure an increase of supply of steel for car building and so forth.

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. On the other hand, we are told that the high price of trucks is due largely to the inability of the automotive industry to produce to capacity for lack of steel?

Mr. CHAPMAN. That is correct.

The CHAIRMAN. Would you take steel from the automotive industry and devote it to the manufacture of railway equipment?

Mr. CHAPMAN. I think I would, Congressman.

The CHAIRMAN. Then what might you expect would happen to the prices of trucks?

Mr. CHAPMAN. Well, you are getting into the pricing of another commodity, then.

The CHAIRMAN. Pardon me.

Mr. CHAPMAN. You are getting into the pricing troubles of another commodity, then.

The CHAIRMAN. Yes, sir; and that trouble would be accentuated, would it not, by depleting stocks of presently available steel for the automotive industry, for the manufacture of trucks?

Mr. CHAPMAN. I don't believe I understood that question, Congressman.

The CHAIRMAN. Have we not created the problem—let me put it that way—when we divert steel from the automotive industry to the car-building industry? Have we not created a problem for the automotive industry which will naturally result in an increase in prices for busses and trucks?

Mr. CHAPMAN. In that respect you would. But would it not be better if we devoted our efforts to increased production of the steel program, as the first essential?

The CHAIRMAN. Absolutely. Now we are getting back to fundamentals. Now, what can we do to increase the production of steel?

Mr. CHAPMAN. I am not really qualified to speak on that as much as the Department of Commerce will be when they come before you on the steel problem, which they are handling.

The CHAIRMAN. Do you know whether War Assets has any steel factories?

Mr. CHAPMAN. I beg your pardon?

The CHAIRMAN. Do you know whether War Assets, or the Defense Plants Corporation, have any steel factories which are not operating at the present time?

Mr. CHAPMAN. I do not know whether they have any that have not been disposed of or not at this time.

The CHAIRMAN. I think perhaps the committee had better find out what facilities are available for the expansion of steel production. That is really the problem, is it not?

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. What standards would apply in determining the essentiality of the use to which steel is put in peacetime? You say you would take from an unessential industry to give to a more essential industry.

Mr. CHAPMAN. I do not know. That requires an awful lot of careful study, but just thinking offhand, Congressman, would it not be more beneficial to our economy, if, we will say, we diverted steel from tin cans that we make, if we could use some other commodity for cans and diverted that steel into productive capacity for oil industry equipment, refining equipment, and so forth.

Mr. KUNKEL. Do you not use tin cans in the oil industry?

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. I was just going to ask, Do you not use tin cans in the food processing industry and is that not about as essential as most anything we have?

Mr. CHAPMAN. You do, that is why I say it is a matter of——

The CHAIRMAN. If you confined the use of tin to the making—if you eliminated the use of steel for making of cans for canned beer the public might go along, but where are you going to draw the line? How much steel are you going to get from a program which merely shuts off the steel in the manufacture of tin cans for beer?

Mr. CHAPMAN. Well, again, I say I am not qualified to answer that, because I think the ultimate end use of the steel would have to be

studied very carefully to see whether all of the use it is now going to is essential.

The CHAIRMAN. Well, let us put the $64 question: Have you a program of allocation, or what is the program, and what industries are you going to divert steel from, and to which industries are you going to increase the allocation of steel?

Mr. CHAPMAN. Congressman, without having studied the end uses to which all of the steel is going, speaking not as an economist or an expert in steel, but looking at the need of the oil industry as I think I have some idea of the problem, I am involved in oil, and its basic importance to our industry, it would certainly appear to the average person that there are certain end uses to which steel is now going which this country could well afford to divert to the production in the oil fields.

Now, I am not capable of saying to you at this moment what particular end uses those are, but there obviously must be some. Maybe not enough.

The CHAIRMAN. According to your view, it is more essential to build cars, steel cars, than it is to build automobiles, but I dare say that Mr. Ford, Mr. Wilson, Mr. Keller, would not agree with you that it is more essential to build rolling stock for railroads, than it is to build rolling stock for highways.

Mr. GAMBLE. Do not forget housing.

Mr. COLE. Do not forget farm implements.

Mr. CHAPMAN. Farm implements are important, too. That is one of the categories which I have listed as important.

The CHAIRMAN. My attention is called to the fact that Mr. Farrington appeared before the committee on the economic report yesterday, and in his statement he wanted to control the use of tin and tin plate to aid in the preservation of foods.

Mr. CHAPMAN. Well, you will find quite a difference of opinion when you start to apply these allocations from one industry use to another.

The CHAIRMAN. Are there differences of opinion among those who will have the administration of the program?

Mr. CHAPMAN. You say are there differences?

The CHAIRMAN. Yes, sir.

Mr. CHAPMAN. I am sure, Congressman, if it was divided among more than one person, there would be some differences.

The CHAIRMAN. Well, I have tried for the last 10 days to get somebody to come before the committee and go over this program a little more specifically than the President did in his message. Is there anyone whom you have in mind who can coordinate this program for us—I am merely asking for my information, and I am not asking to embarrass you; I assume you might know—who can tell us whether steel is more necessary—whether they want steel for tin cans or not.

Mr. CHAPMAN. May I ask if Mr. Harriman has appeared here or not?

The CHAIRMAN. He will appear later.

Mr. CHAPMAN. It is my estimation that they will give you a more reliable estimate of the over-all program.

The CHAIRMAN. Do you think they will be able to tell us what commodities they will allocate?

Mr. CHAPMAN. I do not know, but steel would not be within the purview of the Department of the Interior and I think it would be within the purview of the Department of Commerce and I think they would be willing and able to give you more than I could.

The CHAIRMAN. What kind of a program have you outlined with respect to voluntary measures for conservation of oil and coal? At the present time we are told that there has been a decided increase in the use of oil, in automobiles and in heating of homes.

Mr. CHAPMAN. That is correct.

The CHAIRMAN. There has been a tremendous increase in heating units, oil heating units, in use, as you have stated, and many of them are taking away oil from other uses.

Mr. CHAPMAN. That is correct.

The CHAIRMAN. That is a situation which is with us.

Mr. CHAPMAN. That is correct.

The CHAIRMAN. Then are we not aggravating that situation by the export of large quantities of petroleum, in the face of the fact that we do not have surpluses? And I am getting back again to the fact that, because of our own increased demands, the demand incident to buying large volumes of petroleum products for foreign account accentuates this problem; does it not?

Mr. CHAPMAN. I think that it does; yes.

The CHAIRMAN. Do you want price control to offset that fact?

Mr. CHAPMAN. We are hoping, as I said in the first part of my statement, that it would not be necessary to have to impose the most stringent measures of price controls.

The CHAIRMAN. You know we have lived with price controls here since 1941?

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. What, in your opinion, would be the probable result, to our production effort, if we reenacted the power to control prices?

Mr. CHAPMAN. Let me answer you with respect to oil, on that point. It would not be, I think, desirable to impose a price control on oil, as long as the price itself is what is assisting in bringing out the increased supply necessary to meet the demand. I think you would have to let it take its normal course.

The CHAIRMAN. You believe in the theory that no maximum price, under price control, should be set so low that it would discourage production?

Mr. CHAPMAN. No maximum price, you say, should be set at a point below which it would discourage production?

The CHAIRMAN. Yes; so low as to discourage production.

Mr. CHAPMAN. Well, I do not think it should be set so low that it would discourage production.

The CHAIRMAN. Do you believe in the theory, I said, that no maximum price should be set so low as to discourage production?

Mr. CHAPMAN. That is right; I do.

The CHAIRMAN. Then you do believe in the theory that the maximum price should be set high enough to reflect production cost plus a reasonable profit?

Mr. CHAPMAN. That is right; I do.

The CHAIRMAN. I wish you had been one of the advisers to the President last year.

Mr. CHAPMAN. I do not think that is inconsistent with the program that we are advocating here today.

Mr. KUNKEL. Mr. Chapman, you realize that the President vetoed the price-control bill on the ground that it contained a stipulation of providing for cost plus a reasonable profit. So I see you disagree with the President's veto of price control. Mr. Chapman, on page 10 of your statement, in six essential uses to which you refer, I suppose you mean by that that you would allocate steel in the order of those priorities; is that correct?

Mr. CHAPMAN. I am talking about the allocation of oil itself, not of steel. That would be my tentative approach to the importance of them, in the order listed.

The CHAIRMAN. I notice that among those essential uses you do not make provision for export.

Mr. CHAPMAN. No; I did not in that list, Mr. Chairman.

The CHAIRMAN. Yet the long-range aid program contemplates the export of a good amount of petroleum products?

Mr. CHAPMAN. I think that would have to be included.

The CHAIRMAN. Would you put that first, or last, or in the middle somewhere?

Mr. CHAPMAN. It is a little hard to say where I would put it. I think that has to depend upon the more or less day-by-day needs and the seriousness of the conditions of the people we are trying to help.

Mr. MONRONEY. May I ask a question?

The CHAIRMAN. Yes.

Mr. MONRONEY. In the Marshall plan, is it not a fact that most of this petroleum that is being discussed, in the long-range plan, would come from the Near East, excepting that it would be paid for in American dollars?

Mr. CHAPMAN. That is correct.

Mr. MONRONEY. I do not think it is contemplated that any American oil, in any considerable volume, will be exported beyond the interim-aid period. There is some included in the stopgap program, but as to the long-range program, it is my understanding that the oil would come from the Near East, but that it would be paid for in American dollars.

Mr. CHAPMAN. That is correct. Venezuela, too, is a source of supply, in addition to the Near East oil.

Mr. HAYS. Mr. Chairman, may I ask a question?

The CHAIRMAN. I have just one further question, Mr. Hays. In the next to the last line, at the bottom of page 10 of your statement, "for these long-range purposes and so forth," you say "and for expansion of the natural resource base which supports our economy." Do you want to discuss the methods which you might use to increase or expand the natural resource base, and if you will, follow through and discuss the relationship which price control might have to the probability of expanding the natural resource base?

Mr. CHAPMAN. In using that expression, Mr. Chairman, we are thinking of the increased production of oil, as an example. And in the metals field, we need more exploration work in the metals field to increase our production in that field. I feel that is highly important to the whole natural wealth program.

Now, as to the price relationship to that, I do not quite know how to discuss that with you. Particularly your water-power development

is one of those basic ones among our natural resources. It obviously increases our natural wealth.

The CHAIRMAN. Does the Department of the Interior take the position that these controls for which they are asking are merely temporary controls?

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. Against the time when we get sufficient production to reasonably meet the demand?

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. Have they given official consideration to the effects of the reimposition of price control, and allocation of controls and priorities on the possible production effort?

Mr. CHAPMAN. If I understand you correctly, have we given consideration as to how we would allocate and set prices on these commodities?

The CHAIRMAN. No; I will restate it. Have they given consideration to the probable effect of the reimposition of price controls on production? How can we reimpose price controls and at the same time assure maximum production, an ever-expanding production?

Mr. CHAPMAN. Well, I must say we have not been able to give sufficient consideration to that—to expand our thinking into other fields, Congressman, or its effect on it.

The CHAIRMAN. Let me put another $64 question: What would you do with controls tomorrow if we gave them to you today?

Mr. CHAPMAN. We would immediately attempt first, as I tried to explain, the voluntary efforts, to see if that would not meet the emergency. And we hope that they would. But, well, when problems are facing us such as these—I do not care to use the name of the company, but here is a telegram received from a company this morning, saying:

> Supplies have been cut off completely on petroleum products by a certain company. Please advise what we can do—

I am informed by the Office of Oil and Gas Division that we are being swamped with similar statements and requests for information, particularly in the New England area today, in that kind of a situation.

The CHAIRMAN. Is there not always a situation in our economy where individual processes find that it is difficult for short periods of time to get raw materials?

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. Due to transportation and other difficulties?

Mr. CHAPMAN. Yes; you will find some of that.

The CHAIRMAN. You would not recommend these controls as permanent controls; would you?

Mr. CHAPMAN. No, I would not.

The CHAIRMAN. Is there any reason why you should not go along with your voluntary program, and then, when you see that that is going to be a failure, come back to us and give us the experience with respect to your voluntary program and let that be used by this committee as to a reason to impose rationing and price controls?

Mr. CHAPMAN. Of course, that would be an ideal way of doing it if circumstances would permit us to do it that way. I just think that it is moving so fast, and is of such seriousness, that we may not have the

opportunity to do just that kind of a thing before very serious damage has been done to a lot of our people. They may suffer intensely.

The process itself takes considerable time.

Mr. MONRONEY. Mr. Secretary, is it not what you are saying—the basis of most of this discussion has not been so much on price control or rationing but on the powers of allocation?

Mr. CHAPMAN. That is right.

Mr. MONRONEY. The steel industry cannot get its production up if you do not have the gondola cars to carry the coal to the steel mills?

Mr. CHAPMAN. That is right.

Mr. MONRONEY. Therefore your supply of steel remains constant or decreases because coal is the basis upon which the steel industry depends?

Mr. CHAPMAN. That is correct.

Mr. MONRONEY. It would not do any good to have millions of extra tons for the automobile industry if you do not get this minimum of urgently needed steel to give you drilling pipe and casing to produce oil to run these extra cars?

Mr. CHAPMAN. That is correct.

Mr. MONRONEY. And what you are saying is first things must come first. That if we take all our essential materials for consumers, then we are going to wind up down the road without the basic things to run the consumer goods produced; is that not correct?

Mr. CHAPMAN. That is correct, Congressman. We tried to list the uses which we thought were more important and more essential—that would give the greatest relief in the situation with which we are faced. We are faced with dangerous problems, and I am afraid that we might not have the opportunity to come back and take the time that is necessary, to develop our experience and relate it to Congress. We are faced with great pressure. I believe and we are hoping that these voluntary efforts which we will attempt will relieve this; but then you get back to your problem, Congressman Monroney, of steel. The production of automobiles would be very useless unless you could get gasoline to run them. You could go through an endless chain of possibilities. I think you obviously should take first things first and I think steel is one of the first things which needs to be allocated to essential uses.

Mr. MONRONEY. At least a portion of that should be reserved before the rest is diverted into consumer goods, for your urgent supply items, basic supply items.

Mr. CHAPMAN. That is right.

Mr. MONRONEY. Do you know how long that takes, by the time you channel steel, before you get drill pipe, or essential oil-field equipment? It must take from 4 to 6 months.

Mr. CHAPMAN. It is about 6 months.

Mr. MONRONEY. Do you know anything about the increase in the price of drill pipe, for example, which has occurred in the last year, in the oil industry?

Mr. CHAPMAN. I do not have the exact figures. Mr. Ball, do you happen to know that?

Mr. BALL. No, I do not have it.

Mr. CHAPMAN. It is rather heavy, I assure you.

Mr. MONRONEY. Figures were quoted to me 2 or 3 weeks ago, to the effect that second-hand drill pipe, which is used extensively in the oil

industry, was about $2 a foot and it is up to six or six and a half dollars a foot?

Mr. CHAPMAN. That is right.

Mr. MONRONEY. Which reflects the urgent shortage. I do not know whether those figures are correct or not. One or two drillers told me that is what was being asked for drill pipe. They cannot complete new locations, or get maximum production of oil, for want of allocations of steel to supply the oil-field machinery. There is plenty of capacity for making this oil-field machinery if they could get the steel. But it is a small industry, relatively speaking, and a drain on steel, so that the steel companies apparently are not as anxious to give them the adequate steel as they are to the users of tremendous amounts, such as the automobile industry.

Mr. CHAPMAN. That is right. That is one of the problems that go into trying to keep the supply to the oil industry adequate. And remember, if you get steel for the oil industry, it will take from 18 months to 2 years to build a good refinery, after you get your steel.

Mr. MONRONEY. I think that is all.

The CHAIRMAN. Mr. Hays?

Mr. HAYS. Mr. Chapman, are you familiar with that phase of the report dealing with manganese?

Mr. CHAPMAN. Mr. Boyd is familiar with that phase of it.

Mr. HAYS. The report shows we are importing a considerable amount of manganese and that we are forced to import.

Mr. BOYD. That is correct. We have always been forced to import a very large proportion of our manganese, sir, virtually all of it.

Mr. HAYS. So that even a problem that appears to be domestic, that is, the production of steel, is greatly affected by the foreign situation?

Mr. BOYD. That is correct, quite correct.

Mr. HAYS. Are you prepared to tell us what the sources of manganese are at this time, the principal sources?

Mr. BOYD. I would have to give them to you from memory. The principal sources today are Russia, Africa, Cuba, and there are other smaller sources. But I would say South Africa—and Russia—I think Russia is our greatest supplier of manganese today.

Mr. HAYS. That suggests this question, then: Trade with Russia, if entirely cut off, would deprive us of an essential element in the production of certain steel?

Mr. BOYD. That is a very dangerous situation, sir. That is a thing we are considering now to see what we can do about it. The production of manganese from Africa, for instance, will depend upon the improvement of railroad conditions there—manganese and chrome.

Mr. HAYS. Export controls, however, can be utilized for the purpose of seeing that the things we exchange for Russian manganese would not be those things which would contribute, as some have suggested, to the building of a war machine by Russia. That was suggested, I believe, by certain students of the Russian situation. I will not ask you to comment on that, but export controls could be exercised, of course, discreetly in that respect. That would be another reason, would it not, for having export controls?

Mr. BOYD. Yes, sir.

Mr. KUNKEL. Are we getting any manganese from Russia right now?

Mr. BOYD. Yes; we are, every day, sir.

Mr. KUNKEL. Have been getting that steadily over the past years?

Mr. BOYD. I am not quite familiar with the details and background but I could get it for you and put it in the record if you would like to have it.

Mr. KUNKEL. No; I was just interested in facts. We are getting approximately the normal amount from Russia?

Mr. BOYD. That is correct. We are getting what we used to get before the war and during the war.

Mr. HAYS. We are also required now to import bauxite to produce our domestic requirements of aluminum?

Mr. BOYD. Yes; mostly that comes from the northern coast of South America.

Mr. HAYS. And that has changed in the last 10 years. In other words, 10 years ago, Arkansas and Georgia were supplying the greatest amount of our bauxite.

Mr. BOYD. Well, of course, our aluminum industry has expanded by tremendous leaps and bounds. In the early stages we did not use a great deal of bauxite but during the war and just before the war, our production expanded tremendously and we were forced to go to New Guinea to get it. We are now, of course, producing bauxite from Arkansas today, and probably will for a long time.

The high-grade reserves in Arkansas are quite small. The low-grade reserves are tremendous.

Mr. HAYS. It is a fair conclusion, then, that the production of these key commodities depends to a considerable extent on the foreign situation?

Mr. BOYD. Yes, sir; in some of the key commodities that is very true.

Mr. HAYS. That is all.

Mr. KUNKEL. I would like to call attention to this point in the preliminary report of the House Select Committee on Foreign Aid. I do not want to ask that it be incorporated in the record, but the information given in it is right in line with the general information given by Mr. Chapman and the Department of the Interior and I think anyone who is reading our hearings would be interested in referring to this report also, in relation to the exhausting of our natural resources and the stock-piling program.

The CHAIRMAN. Very well. Mr. Talle?

Mr. TALLE. Have you any suggestion with reference to expanding our facilities for making synthetic gasoline, Mr. Chapman?

Mr. CHAPMAN. Congressman, that is a point that we are extremely interested in in our Department. I do not know how far we can go in discussing that. I suppose that there is opportunity for discussion. As you know—I think it was 4 years ago—Congress gave authorization, and has since given appropriations, for the Department to develop a synthetic-fuels program.

I will touch first on the shale that the Bureau of Mines has developed. It has developed an experimental plant on oil from shale. That plant was put in operation last May. It is a rather good-sized plant. I think the capacity is around 200 barrels a day, which is a good size for experimental purposes, and, not being a scientist in the field of geology, I would not dare to comment about the outlook, as to how good it looks, but I think it looks very hopeful. That is all I would care to say at that point on the shale.

I would like to have Mr. Boyd discuss the problem on synthetics from coal. I think he can give you more accurate detailed information on that, if you would care to have him do so.

Mr. TALLE. I would be glad to hear him.

Mr. BOYD. The Bureau of Mines is now conducting three surveys, Congressman, on experimental projects—on the production of synthetic fuel.

Mr. Chapman has referred to the work in Colorado, which is on mining, on production from shale, and the refining methods required to produce gasoline from that.

We have two additional plants for production of synthetic fuel from coal by two different processes. One is known as the Fishertrons process, which was used in Germany, and the other is the hydrogenation of coal, which has been used elsewhere. Those processes have not been developed at the present time. We expect to get those plants into production, we hope, sometime next year.

At the same time, industry is doing a certain amount of work on one process, near Pittsburgh. They are now erecting a pilot plant for the same purpose—to experiment with the extraction of synthetic fuels from coal.

Mr. TALLE. Has your Bureau made any preliminary estimates as to the quantity that might be manufactured in that manner?

Mr. BOYD. That is a very difficult question to answer because it is the creation of an enormous industry. It takes a great deal of steel to produce synthetic fuel from coal, and from oil shale, and that means the creation of a new industry, and the expansion of a very large steel-consuming industry.

So that surveys are under way now to see where these plants should be located if we needed the industry very shortly and how much steel it would take and whether it could be done. But you could not say that right off. We do not have enough background information yet to make a clear statement on it.

Mr. TALLE. Have you considered the use of other products?

Mr. BOYD. Yes, sir; under the Synthetic Fuels Act under which we operate the Department of Agriculture carrying on certain experiments with the production of liquid fuels from farm products.

Mr. TALLE. And to what do you attribute the great increase in demand for oil? Of course I realize Diesel engines take it, and so on.

Mr. CHAPMAN. I think, Congressman, as I stated in my statement, there were many of these new developments. One good example are these heating units for homes. There has been a tremendous increase in installation of home-heating units. That is one, and a very important one.

But there are so many items like that, and particularly your locomotives, as an example. A very large percentage of the orders for locomotives today are for Diesel locomotives, and so many things are turning to the use of oil which before did not use oil.

Mr. TALLE. In other words, it is much nicer and cleaner to use oil and these other fuels, than shovel coal as I did?

Mr. CHAPMAN. That is correct. Your farm equipment has more than doubled this year.

Mr. TALLE. What can you say as to the expansion of the use of natural gas?

Mr. CHAPMAN. I do not believe I could give you that. Mr. Ball, head of the Division of Oil and Gas Department, can give you some information on that.

Mr. BALL. The utilization of gas has increased as rapidly as that of fuel oil. The limitation on the amount of gas that is used is not the desire of the user or the size of the market, but again lack of steel to get gas from the Southwest, where there are abundant resrves, into the consuming areas of the Middle West, and other consuming areas.

I cannot give you exact figures on how much the use of gas has expanded but it has been very large and very rapid, and would be much larger and much more rapid if there were pipe lines available to bring it from where it is to where it could be used.

Mr. TALLE. Do you recall the trials and tribulations we had during OPA days, when the oil people came in here to say that explorations were not being made at the proper rate for the reason of the controls?

Mr. CHAPMAN. I was not involved in those discussions.

Mr. TALLE. That leads me to page 2 of your statement, Mr. Chapman, at the bottom of the page:

> As a very first prerequisite, for both coal and oil, immediate provisions should be made for the gathering and analysis of statistical data. Complete data on which changing conditions can be predicted is essential to the full success of voluntary measures and will go far towards minimizing the necessity for mandatory measures, if not obviating their use altogether. But in any event, such information would be essential to the speedy institution and effectiveness of stringent controls if their use should be needed.

Would you illustrate what is involved there?

Mr. CHAPMAN. I think Mr. Boyd could sadly tell you what the trouble referred to there is. In the Bureau of Mines we do not have adequate statistics on coal today at all. A great deal of the work would be a purely guess job on certain statistics and figures, whereas we should have absolutely accurate information, which we do not have.

That is one of the fields which is of just as much importance in the matter of oil, and we have not the information there. But I was thinking of the coal situation because Mr. Boyd has had some very serious problems on his hands, in trying to work out what course to follow and what course to pursue, and lacking this information makes it a very difficult job.

Mr. TALLE. A matter of arriving at a fairly accurate inventory; is that it?

Mr. CHAPMAN. That is one of the problems involved; yes.

Mr. TALLE. I suppose there are three ways of handling this: One is doing nothing. Everything is free?

Mr. CHAPMAN. Yes, sir.

Mr. TALLE. At the other end would be nationalization of the resources?

Mr. CHAPMAN. That is correct.

Mr. TALLE. And somewhere in between would be your stringent controls?

Mr. CHAPMAN. Yes, sir.

Mr. TALLE. How far towards nationalization would the stringent controls go?

Mr. CHAPMAN. I would not want to hazard a guess on a thing like that. I do not think it would lead to that, Congressman.

Mr. TALLE. At any rate you are not for that extreme?

Mr. CHAPMAN. I am not thinking that this is any long-term necessity. I am thinking only of the stringent controls, if we had to use them, which would be of a temporary nature. That is my feeling on it.

Mr. TALLE. Thank you.

Mr. COLE. Mr. Chapman, many people believe, and if properly quoted, the President stated not too long ago, that price controls in peacetime were probably a part or portion of the police state. Now, at least if you believe that that is substantially true or partially true, it seems to me that we should not consider price controls or rationing, particularly price controls, except in critical emergencies.

I, for one, may not have the capacity to understand, but on the basis of the testimony presented this afternoon, at least, I do not find the critical emergency which would justify my voting for authority for price control.

In your statement a while ago you said something about the fact that if we did not have the power people might suffer. "We are facing dangerous problems. Serious consequences might develop."

Now, I do not understand, or do not see those serious consequences, or I do not see the danger, nor do I see where the people may suffer.

I would like to have that explained at greater length.

Mr. CHAPMAN. Maybe I could emphasize a little bit if I could put myself in the position of this man who sends me this wire this morning. This is not just an isolated incident. The Division is swamped with this kind of information.

Mr. COLE. You will be swamped 10,000 times more by farm-machinery manufacturers and building-materials manufacturers if you allow this program.

Mr. CHAPMAN. I think we will be swamped with them pretty soon if we do not do something to allow them to get gasoline and oil. And may I say that just recently a committee from Indiana came to see us to discuss the question of working out with them some way to let them have the royalty oil which the Government sells, in preference to some other purchasers, and the officials of that State put up what I thought was an exceedingly good case as to why they should have some preference.

Unfortunately for that particular instance, we have no authority for granting them any preference other than the price. When they bid the price they get it. They are in a serious situation themselves. They feel it to the extent that they had this committee call on us to see what we could do to help them get more oil and gas for that area.

Now it is that kind of thing that I am thinking about which is going to be accentuated tremendously as the cold weather comes on, unless we can relieve some of the pressures that are on the oil industry, such as the lack of facilities to move oil, to get it from one place to another as they need it, as well as trying to keep up the highest production possibilities they have. I am thinking of those things. And I noticed in the testimony before the Senate Small Business Committee yesterday that some of the people in the New England area were saying exactly what this man said about his oil situation—that they have been cut off completely. That begins to create a panic in the minds of a lot of local people when they find that happening, and you so often find that there will be a lot of loose charges made about who is responsible for it. Sometimes it is very easy to charge major oil companies

with trying to hog the market and things of that kind; back of it all there is an economic situation now which is obviously hurting somebody; and the people it is hurting are the ones we are trying to look after in this particular situation, as I know you are.

This is not an easy problem, Congressman. I wish it were. You have not all the answers, and I do not believe any man in Government or out of Government has all the answers to this problem.

We are searching for the best way to handle this, to relieve what I think is a serious outlook on this oil problem.

Mr. COLE. Do you, then, think people will not have fuel oil and will be cold this winter or next winter in America?

Mr. CHAPMAN. I think very definitely this winter.

Mr. COLE. And if we do not permit this that there is a very definite possibility that that will happen?

Mr. CHAPMAN. I say to you as I said in the beginning; I am not sure that you need the drastic controls or the immediate action. We hope we do not. But with honest efforts made in cooperation with the industry, if we do not meet this situation with these cooperative efforts, some other action must be taken. What must that action be? I frankly have not any better answer. I think that might do it. Maybe it will not. But I think that is the best answer at the moment.

Mr. COLE. I think there is considerable difference between actual suffering and the desire of some businessmen to secure a commodity.

Mr. CHAPMAN. I think that is true.

Mr. COLE. The difficulties in securing that commodity, as the chairman suggested, are always possible. I want to be a little more certain that the emergency is as critical as stated, and I do not find it in the testimony. I find it in opinion, but I do not find it on the basis of any facts presented.

Mr. CHAPMAN. Let me come back to your question one second. I was trying to confirm what I knew I had in another record in the Department. The request has come from practically all the officials of the New England area, stating to us practically what I am saying to you, that their people are going to suffer if we cannot get this oil in there shortly.

Mr. COLE. I think that would be very helpful to have some of those statements.

Mr. CHAPMAN. I dislike to use the name of a congressional office to bring in. I can bring you the total figures, the requests we have gotten, the amount of oil, and the locations.

Mr. COLE. I dislike price controls in peacetime.

Mr. CHAPMAN. I know you do.

Mr. COLE. And I cannot justify, either to myself or to my people, saddling them with these controls unless I feel it is critical. I cannot feel it is critical based upon someone's opinion that it is without some factual basis for it. That is the first I have heard about these New England communities, and I am interested to know. I think we are entitled to know a little more about it.

Mr. CHAPMAN. You are. I think you are. I would like to put a little estimate of that in the record for you.

Mr. COLE. Not only that, but I think some other substantiating evidence. Not that I am disputing your word, understand, Mr. Chapman, but I would like to have the information myself.

Mr. CHAPMAN. That is all right. I think you are entitled to have it, and I would like to put some information into the record for you.

Mr. COLE. Do you think further control of exports would help the situation?

Mr. CHAPMAN. I think it would help.

Mr. BUCHANAN. Mr. Chairman.

The CHAIRMAN. Mr. Buchanan.

Mr. BUCHANAN. We are importing manganese, chrome, platinum, and sulfite from Russia now. Has your Department any figures as to how much?

Mr. BOYD. We would have to get that, Congressman, from the Department of Commerce. They keep figures on exports and imports. We do not have them in our Department, except insofar as we get them from that Department. I can put them in the record.

Mr. BUCHANAN. And, Mr. Chapman, are we going to have the Commerce Department here?

The CHAIRMAN. Yes, sir.

Mr. Harriman will be here next week.

Mr. BANTA. Mr. Chairman.

The CHAIRMAN. Mr. Banta.

Mr. BANTA. One statement which Mr. Chapman made poses a question. You said that officials in the State of Indiana had asked you for priority for royalty oil. Then you said that under the law you could not give them preference, but if they paid the price they got it. Does that mean that you sell this oil to the highest bidder?

Mr. CHAPMAN. Yes, sir; under the law it is sold to the highest bidder.

Mr. BANTA. What does that do toward inflation?

Mr. CHAPMAN. Well, we have to follow the law in that respect, and I presume the high price that is bid for that oil increases the inflationary pressures to that extent.

Mr. BANTA. You do have to sell to the highest bidder?

Mr. CHAPMAN. Yes, sir. Let me make this qualification: The law leaves one area of discretion to the administrator, in not giving it to the high bidder, but so far I have not been able to find a case which would be justified in my judgment in not giving it to the high bidder.

The CHAIRMAN. Mr. Chapman. we are very grateful to you. I might say that the questioning has been for the purpose of eliciting information, and any implication as to the members' position as a result of the questions, by preference or otherwise, is purely coincidental.

Mr. CHAPMAN. That is all right.

The CHAIRMAN. You distributed two charts which you did not mention?

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. Do you care to put them in the record in addition to those to which you referred?

Mr. CHAPMAN. I think they would be helpful, Mr. Chairman, and anyone studying the record could get some help from looking at these charts.

The CHAIRMAN. They will be inserted in the record at this point.

(The charts referred to are as follows:)

Coal production, January 1938 to October 1947, by months (in thousands of net tons)

BITUMINOUS COAL AND LIGNITE

Month	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
January	31, 535	36, 259	45, 709	45, 087	49, 250	47, 850	54, 142	53, 134	54, 433	58, 970
February	27, 925	34, 649	39, 921	42, 606	44, 578	49, 158	52, 833	48, 280	50, 248	51, 400
March	27, 280	35, 959	35, 831	48, 926	48, 002	56, 203	54, 903	52, 584	56, 849	55, 375
April	22, 027	9, 945	33, 320	6, 110	48, 560	49, 190	49, 590	43, 490	3, 506	41, 187
May	21, 739	18, 160	35, 460	43, 603	48, 090	47, 390	53, 894	49, 620	19, 695	56, 484
June	22, 898	28, 279	32, 940	43, 455	48, 445	34, 540	52, 605	51, 137	50, 579	47, 500
July	23, 763	29, 471	36, 491	44, 264	48, 038	52, 306	48, 974	47, 362	51, 350	39, 866
August	29, 030	35, 167	39, 655	47, 013	48, 060	52, 586	54, 150	47, 802	54, 686	51, 020
September	32, 769	38, 630	39, 295	47, 691	50, 087	52, 407	50, 408	47, 067	51, 922	52, 350
October	35, 740	46, 596	39, 364	51, 703	52, 042	49. 510	51, 698	39, 260	57, 485	56, 890
November	36, 611	43, 497	40, 682	44, 748	47, 708	44, 812	50, 714	50, 926	37, 501	-------
December	37, 228	38, 243	42, 104	48, 943	49, 833	54, 225	45, 665	46, 955	43, 746	-------
Total	348, 545	394, 855	460, 772	514, 149	582, 693	590, 177	619, 576	577, 617	532, 000	-------

ANTHRACITE

Month	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
January	4, 978	5, 019	5, 783	5, 162	4, 560	4, 466	4, 970	4, 219	4, 968	5, 155
February	3, 646	4, 169	3, 648	4, 596	4, 801	5, 203	5, 811	4, 471	4, 774	4, 240
March	4, 257	3, 652	3, 881	4, 765	5, 116	5, 855	5, 512	5, 269	5, 476	4, 967
April	3, 149	5, 367	3, 853	3, 317	5, 187	5, 337	5, 141	5, 124	5, 069	4, 279
May	4, 400	5, 141	4, 070	4, 001	4, 873	5, 219	5, 781	2, 083	5, 453	4, 549
June	4, 450	3, 577	4, 492	5, 072	5, 153	3, 244	5, 558	5, 667	3, 625	4, 609
July	2, 580	2, 951	4, 534	4, 855	5, 374	5, 698	4, 905	4, 944	5, 248	4, 084
August	2, 735	3, 883	3, 883	5, 441	5, 212	5, 653	5, 558	4, 656	5, 428	4, 904
September	3, 388	4, 840	4, 172	5, 334	5, 459	5, 474	5, 380	4, 640	3, 033	5, 141
October	4, 180	4, 985	4, 355	5, 580	5, 132	5, 359	5, 538	5, 304	5, 393	5, 496
November	3, 803	3, 989	3, 980	3, 974	4, 824	4, 140	5, 029	4, 559	4, 975	-------
December	4, 533	3, 914	4, 834	4, 271	4, 639	4, 996	4, 518	3, 998	5, 065	-------
Total	46, 099	51, 487	51, 485	56, 368	60, 328	60, 644	63, 701	54, 934	60, 507	-------

TOTAL, BITUMINOUS COAL, LIGNITE, AND ANTHRACITE

Month	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
January	36, 513	41, 278	51, 492	50, 249	53, 810	52, 316	59, 112	57, 353	59, 401	64, 125
February	31, 571	38, 818	43, 569	47, 202	49, 379	54, 361	58, 644	52, 751	55, 022	55, 640
March	31, 537	39, 611	39, 712	53, 691	53, 118	62, 058	60, 415	57, 853	62, 325	60, 342
April	25, 176	15, 312	37, 173	9, 427	53, 745	54, 527	54, 731	48, 614	8, 575	45, 466
May	26, 139	23, 301	39, 530	47, 604	52, 963	52, 609	59, 675	51, 703	25, 148	61, 033
June	27, 348	31, 856	37, 432	48, 527	53, 598	37, 784	58, 163	56, 804	54, 204	52, 109
July	26, 343	32, 422	41, 025	49, 119	53, 412	58, 004	53, 879	52, 306	56, 598	43, 950
August	31, 765	39, 050	43, 538	52, 454	53, 272	58, 239	59, 708	52, 458	60, 114	56, 014
September	36, 175	43, 470	43, 467	53, 025	55, 546	57, 881	55, 788	51, 707	56, 955	57, 491
October	39, 920	51, 581	43, 719	57, 283	57, 174	54, 869	57, 236	44, 564	62, 878	62, 386
November	40, 414	47, 486	44, 662	48, 722	52, 532	48, 952	55, 733	55, 485	42, 476	-------
December	41, 761	42, 157	46, 938	53, 214	54, 472	59, 221	50, 183	50, 953	48, 811	-------
Total	394, 644	446, 342	512, 257	570, 517	643, 021	650, 821	683, 277	632, 551	592, 507	-------

United States consumption and stocks of bituminous coal and lignite, January 1938 to September 1947, by months, (in thousands of net tons)

CONSUMPTION

Month	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
January	35, 180	35, 246	46, 221	44, 903	52, 763	53, 771	56, 334	50, 414	52, 161	53, 281
February	30, 448	33, 172	40, 798	42, 259	47, 394	49, 583	53, 335	52, 875	46, 551	50, 063
March	30, 583	33, 915	40, 579	45, 386	46, 784	53, 775	54, 761	52, 053	43, 966	50, 063
April	25, 317	27, 384	33, 698	33, 866	43, 566	48, 522	47, 770	44, 287	32, 179	43, 269
May	23, 170	23, 240	31, 184	36, 206	42, 847	45, 767	44, 656	46, 494	28, 678	41, 123
June	21, 821	24, 052	28, 919	36, 577	40, 526	43, 102	[illegible]	43, 262	34, 322	40, 408
July	21, 884	24, 772	30, 135	37, 821	40, 109	45, 244	43, 552	42, 137	39, 596	38, 978
August	24, 657	27, 595	31, 860	40, 659	40, 546	47, 765	46, 991	41, 837	41, 939	40, 428
September	26, 833	31, 491	32, 519	40, 463	42, 486	49, 513	46, 084	39, 865	42, 782	42, 179
October	29, 922	37, 184	36, 290	43, 840	45, 747	51, 429	49, 917	41, 368	47, 075	-------
November	31, 793	37, 736	37, 757	43, 368	45, 636	50, 210	50, 065	44, 440	44, 809	-------
December	35, 699	40, 066	41, 903	48, 166	52, 506	58, 044	55, 501	51, 990	46, 207	-------
Total	337, 307	375, 853	431, 863	493, 514	540, 910	596, 725	492, 449	560, 122	500, 265	-------

STOCKS (END OF MONTH) IN HANDS OF INDUSTRIAL CONSUMERS AND IN RETAIL YARDS

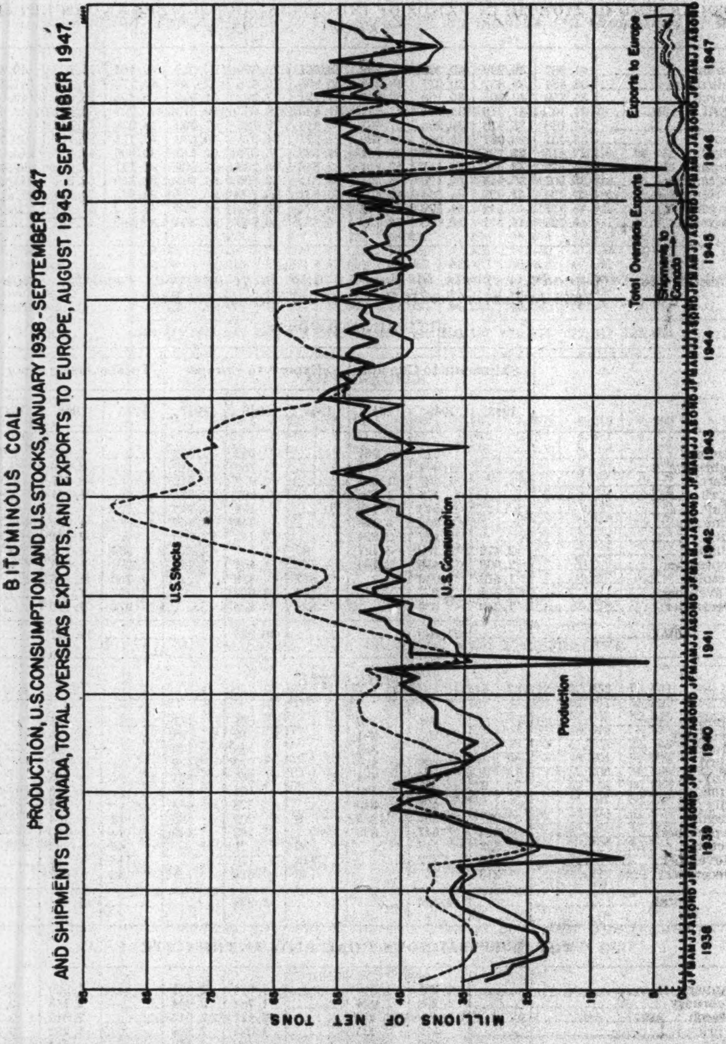
January	41,967	39,720	40,222	48,702	58,681	79,379	53,628	49,464	46,528	49,688
February	38,484	39,887	39,077	48,518	56,885	76,626	52,720	45,773	51,158	47,867
March	35,359	40,505	35,108	50,690	57,221	77,292	51,835	45,495	58,531	49,033
April	34,102	31,746	35,721	35,971	61,836	78,667	50,513	43,793	38,741	42,419
May	33,158	25,413	39,203	37,483	67,418	79,525	55,293	44,020	31,643	50,218
June	33,452	26,991	41,563	42,929	73,271	74,075	59,680	47,715	37,777	49,778
July	33,615	29,725	45,438	47,051	77,583	75,570	61,413	49,906	43,611	45,366
August	34,579	33,624	48,111	52,801	82,686	75,276	63,909	51,141	47,990	47,157
September	36,507	36,943	51,122	56,994	87,311	72,866	64,905	53,350	52,367	48,370
October	39,024	42,020	51,564	61,401	89,937	68,799	65,074	48,015	54,924	--------
November	40,817	45,542	51,872	61,763	90,874	60,079	64,020	48,919	52,429	--------
December	40,720	44,571	50,998	62,737	85,889	56,686	57,204	45,665	47,157	--------

Shipments to Canada, exports to Europe, and total overseas exports, August 1945 to September 1947 (in thousands of net tons)

BITUMINOUS COAL

	Shipments to Canada			Exports to Europe			Total overseas exports		
	1945	1946	1947	1945	1946	1947	1945	1946	1947
January	--------	915	931	--------	1,583	1,904	--------	1,898	2,260
February	--------	1,004	733	--------	1,765	1,946	--------	2,126	2,450
March	--------	1,167	1,0[illegible]8	--------	2,075	2,412	--------	2,467	3,066
April	--------	573	1,616	--------	1,007	2,385	--------	1,171	2,139
May	--------	543	3,148	--------	171	3,742	--------	189	4,404
June	--------	2,206	3,170	--------	846	3,859	--------	1,039	4,391
July	--------	2,967	2,254	--------	2,141	3,100	--------	2,451	3,616
August	2,476	3,153	3,197	83	2,317	4,470	362	2,721	5,125
September	2,608	3,416	2,764	794	1,404	3,798	1,073	1,654	4,321
October	1,653	3,039	--------	1,028	878	--------	1,205	1,146	--------
November	2,314	2,297	--------	916	1,052	--------	1,157	1,347	--------
December	1,240	600	--------	827	826	--------	972	1,112	--------
Total	--------	21,880	--------	--------	16,065	--------	--------	19,321	--------
ANTHRACITE									
January	--------	286	379	--------	31	187	--------	31	198
February	--------	295	291	--------	19	98	--------	19	105
March	--------	331	394	--------	46	130	--------	51	134
April	--------	306	409	--------	76	443	--------	81	471
May	--------	292	383	--------	251	434	--------	255	449
June	--------	256	363	--------	104	345	--------	110	351
July	--------	420	240	--------	223	443	--------	238	459
August	297	557	365	9	204	485	13	204	488
September	322	547	392	(1)	162	449	14	170	463
October	323	517	--------	36	21	--------	42	28	--------
November	286	372	--------	112	176	--------	118	184	--------
December	316	335	--------	39	615	--------	43	622	--------
Total	--------	4,514	--------	--------	1,928	--------	--------	1,993	--------
TOTAL BITUMINOUS COAL AND ANTHRACITE									
January	--------	1,201	1,310	--------	1,614	2,091	--------	1,929	2,458
February	--------	1,299	1,024	--------	1,784	2,044	--------	2,145	2,555
March	--------	1,498	1,492	--------	2,121	2,542	--------	2,518	3,200
April	--------	879	2,025	--------	1,083	2,828	--------	1,252	3,410
May	--------	835	3,531	--------	422	4,176	--------	444	4,853
June	--------	2,462	3,533	--------	950	4,204	--------	1,149	4,742
July	--------	3,387	2,494	--------	2,364	3,543	--------	2,689	4,075
August	2,773	3,710	3,562	92	2,521	4,955	375	2,925	5,613
September	2,930	3,963	3,156	794	1,566	4,247	1,087	1,824	4,784
October	1,976	3,556	--------	1,064	899	--------	1,247	1,174	--------
November	2,600	2,669	--------	1,028	1,228	--------	1,275	1,531	--------
December	1,556	935	--------	866	1,441	--------	1,015	1,734	--------
Total	--------	26,394	--------	--------	17,993	--------	--------	21,314	--------

(1) Less than 500 tons.



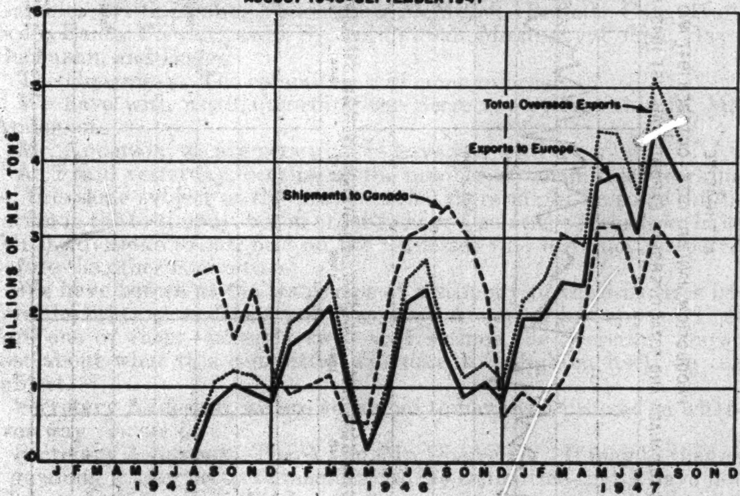
The CHAIRMAN. We are very grateful, Mr. Chapman. Will you be available for further interrogation should the members desire?

Mr. CHAPMAN. I will, Mr. Chairman.

The CHAIRMAN. Mr. Anderson will be here tomorrow morning at 10 o'clock. We will sit until after 12 o'clock and then recess until Monday morning at 10 o'clock.

(Thereupon, at 5 p. m., the committee recessed until 10 a. m., Wednesday, November 26, 1947.)

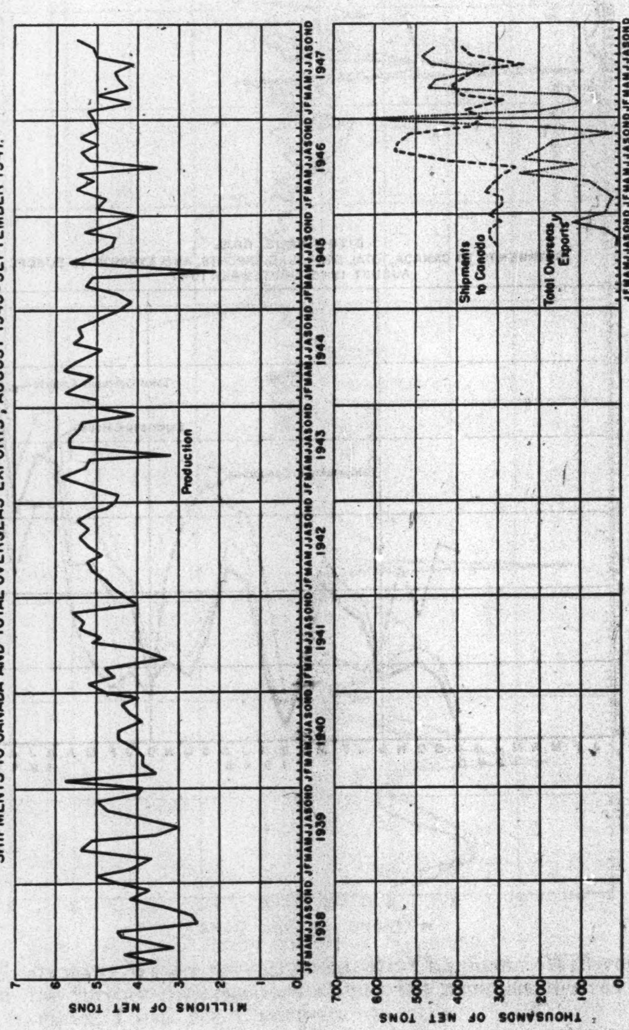
BITUMINOUS COAL
SHIPMENTS TO CANADA, TOTAL OVERSEAS EXPORTS, AND EXPORTS TO EUROPE,
AUGUST 1945-SEPTEMBER 1947



ANTHRACITE

PRODUCTION, JANUARY 1938 - OCTOBER 1947 AND

SHIPMENTS TO CANADA AND TOTAL OVERSEAS EXPORTS[1/], AUGUST 1945 - SEPTEMBER 1947.



ECONOMIC STABILIZATION AIDS

WEDNESDAY, NOVEMBER 26, 1947

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened, pursuant to adjournment at 10 a. m.

Present: Mr. Jesse P. Wolcott, chairman, presiding, and Messrs. Gamble, Smith, Talle, Sundstrom, McMillen, Buffett, Cole, Hull, Scott, Banta, Foote, Spence, Brown, Patman, Monroney, Folger, Hays, Buchanan, and Boggs.

The CHAIRMAN. The committee will come to order.

We have with us this morning the Secretary of Agriculture, Mr. Anderson.

Mr. Anderson, we are very glad to have you with us.

As I said yesterday, because of the number of committees working on this same subject at the present time, there might be some duplication in the testimony, but in order to have a complete record, we have felt it advisable to call first on the witnesses who have not appeared before the other committees.

We have before us the transcript of testimony of the witnesses before the other committees, and Secretary Anderson has appeared before one of them—possibly two—so I assume the Secretary knows just about what this committee will need to enlighten itself on the subject.

Secretary Anderson, we are very glad to have you proceed in whatever way you see fit.

Secretary ANDERSON. Thank you, Mr. Chairman. It may be that as I go along it may occur to members of the committee that I have not adequately covered particular points on which they may desire information. If I may go through my statement, I will be glad to come back to the points at the later time.

STATEMENT OF CLINTON P. ANDERSON, SECRETARY OF AGRICULTURE

Secretary ANDERSON. It is my understanding that you wish me to present information here today that will be helpful to you in acting on the 10-point program proposed by the President in his message of November 17. I appreciate the opportunity of doing this.

For your information, I have testified on various aspects of the anti-inflation and interim-aid proposals in the last several days before the Senate Foreign Relations Committee, the Joint Committee on Economic Report, and the Senate Committee on Appropriations. Others representing the Department of Agriculture also have testified before the joint committee.

Therefore, as you may readily understand, I have little, if any, information which has not already been presented. However, I shall attempt to summarize the main points briefly so as to place the information before you in the most compact and helpful form.

Also I should like to present, for whatever use you may wish, copies of two statements. One is the prepared statement I gave before the Senate Appropriations Committee on Monday. It contains a great deal of useful information containing statistical tables on the United States food and feed situation, current export figures, and some discussion of the immediate needs of France, Italy, and Austria.

That statement, I may say, has tables in it which we think pretty largely cover the situation in most of the areas, of food supplies and feed supplies, and the reason I am handing it to you in this way is that a great deal of time and thought and work went into the preparation of those statistics, and I thought it would be a saving of time, certainly on our part and maybe on yours, if they were used again.

The other statement is the October 20 report of the Office of Foreign Agricultural Relations on world grain movement. With those statements before you to provide detailed information, I can cover the situation in general in minimum time.

The Department of Agriculture, of course, is much more directly concerned with some of the President's 10 points than with others. With your permission, I shall concentrate on those points which do concern us most, taking them up in the order of their listing in the President's message.

The portions of the foreign-aid and anti-inflation program with which the Department of Agriculture is concerned center on grain, but involve also measures which affect our ability to supply as much grain as possible with the least possible disturbance to our domestic economy.

The proposal to strengthen regulation or speculative trading on commodity exchanges is directed at the problem of curbing inflationary speculation by large numbers of small traders who may not even be remotely connected with the business of merchandising or processing commodities.

Unrestrained speculation under present conditions constitutes inflationary competition on basic commodities required for domestic needs and European relief. Under the commodity-exchange legislation as it now stands, the Department of Agriculture can advise but cannot require changes in margins.

We have had fine relations with the commodity exchanges. For the most part they have followed the suggestions made by the Government on margin requirements, although sometimes not as promptly as seemed to us to be advisable for the best interests of all concerned.

The present 33⅓-percent margin now required by the grain exchanges, originally suggested by the Department of Agriculture some weeks ago, seems to be working very satisfactorily. However, there is no assurance that the margin requirements may not be reduced, and the Department of Agriculture does not have authority to require that it be maintained.

We believe that adequate margins are necessary to curb speculative positions in commodity futures and that it would be safer under present conditions if the Department of Agriculture had authority to regulate margins as necessary.

I doubt that there will be any serious question about the advisability of extending export controls, which comes under point 3 of the President's program. The present expiration date of this authority is February 29, 1948. I believe this authority must be extended two additional years to (1) protect our domestic economy; (2) aid in supplying import requirements of the countries in greatest need; (3) fulfill our obligations under international food allocation procedure; and (4) to secure cooperation of other nations in dealing with our import needs.

Shortages in foreign countries have increased the demand for United States supplies, and prices in many foreign countries are higher than in the United States for commodities of which there is a world shortage. Loss of export controls would result in competitive world bidding in this country for commodities in short supply and result in extreme pressure on domestic prices.

Lack of export controls would give those foreign nations best situated financially opportunity to outbid hungry nations least able to pay and result in less equitable distribution of short supplies.

The greatest effect which lack of export controls might be expected to have on commodities in this country would be on wheat, rye, and coarse grains, on rice and on fertilizers.

In this connection it should be remembered that the United States is the net importer of some of the items that are in world shortage, and in order to secure the cooperation of other nations in meeting our import needs, our cooperation is essential in allocating fairly the commodities which we export. We believe that the export-control authority should be extended for a 2-year period beyond its present expiration date of February 29, 1948.

Points 5 and 7 of the President's program are closely related, and we should deal with them together.

Item 5 recommends action to conserve grain through the most efficient marketing of livestock and poultry; and item 7 recommends authorization for allocation and inventory control of scarce commodities which basically affect the cost of living or industrial production. I am sure we all agree that in meeting our responsibilities under the program of economic aid to Europe we should accomplish as much as possible on a voluntary basis, and that any mandatory measures made possible by legislative action should be looked upon as additional forces which could be brought into action only if voluntary measures prove to be unequal to the task.

The reduced supplies of feed grains available for use this year, the prospective lower meat production and possibility of a substantially lower wheat crop in 1948, the continued high level of consumer demand in this country, the urgency of maintaining a large flow of food abroad, and the necessity for assuring that our own essential needs will be met, make it essential that we be prepared to use allocation powers and inventory controls if necessary.

Beyond that, rationing and price-control legislation is advisable to protect our own economy. Control of price and distribution, together with the use of all allocations, would constitute the principal means, outside of voluntary measures, of getting most efficient utilization of grain in livestock and poultry.

If we were to provide foreign aid for only the next few months,

then, I would say that we might get by without any authority for controlling prices or rationing. But all of us recognize that aid over a much longer period will be required.

To be effective, it will have to be substantial and also available on time. We ought not to take any unnecessary chance of having to curtail our effort at a critical moment or of endangering our own economy. Authority for price control and rationing would be good insurance.

Of the total quantity of grain and grain products and byproducts used during the last year approximately three-fourths went to livestock feed. It is, therefore, apparent that the opportunity for the greatest savings of grain is on the farm, and any substantial reduction in grain supplies will be immediately reflected in feeding operations.

Supplies of grain per animal unit are about 14 percent smaller this year than last, and, incidentally, that is included in the charts which are furnished along with the testimony that I gave to the Senate Appropriations Committee the other day. There is a chart which shows the feeding ratios and gives you an opportunity to check that if you wish to do so and discuss it at a later time.

Any substantial reduction in grain supplies will immediately be reflected in feeding operations. Supplies of grain per animal unit are about 14 percent smaller this year than last, which, in itself, makes it necessary that we market hogs at lighter weights, market beef cattle with less finish, do a better job of culling our dairy herds and poultry flocks, reduce broiler and turkey production, and stretch our feed supplies by more efficient use.

To the extent that this effort can go beyond the problem of adjusting to smaller feed supplies, we can save additional grain for export.

Reduction in feeding operations will inevitably be followed by smaller supplies of livestock products.

Meat production in 1948 is expected to total about 10 pounds per capita less than 1947. The decrease will be more pronounced in the spring and summer of 1948 when marketing of hogs and grain-fed cattle will be sharply reduced.

Livestock-feeding ratios now are unfavorable but substantial advances in the price of meats and other livestock products could change feeding ratios to encourage use of more grain for livestock if grain prices remain at present levels.

In order that we may be prepared for any serious emergency that might arise, such as failure of grain crops, it would be necessary to have authority not only for controlling exports but for limiting inventories and directing use of grain domestically through the most essential chanels. Authority for allocating the use of storage and transportation facilities and distribution of farm machinery and fertilizer would also be necessary. The authorities necessary could best be stated in general terms similar to those contained in the Second War Powers Act.

I should stress again that the Department of Agriculture proposes to do everything possible through voluntary measures to bring about needed adjustments in the use of grain domestically. Since the end of the war I have consistently sought to lift controls as soon as conditions permitted and have hoped that conditions necessitating controls

would not recur. However, I do feel that we must face realistically the facts of the world as they are and be prepared as nearly as possible to deal with any situation that may arise.

Now, in combining my comments on points 5 and 7, I have skipped over point 6, which is of major concern to the Department of Agriculture. This point deals with the encouragement of farm grain-conservation practices in this country, and measures designed to increase the production of foods in foreign countries.

I have touched briefly on the grain-conservation problem, but I want to emphasize this effort a little more at this point.

On October 3, shortly after the Cabinet Food Committee had reported to the President, I sent memoranda to the heads of Department of Agriculture agencies asking them to throw the full force of their energies behind the drive to save grain. It would take up too much of your time to recite all of the practices we and the State extension services are suggesting to farmers to save grain, but I should like to mention the major ones here even though I have previously referred to some of them. These suggestions include marketing hogs at lighter weights, putting less finish on beef cattle, feeding more roughage and less grain to dairy cattle, culling unprofitable hens from poultry flocks, and reducing the waste from rodents and insects, improper grain storage, and farm fires.

This program has attracted encouraging support from farm organizations, feed dealers, feed manufacturers, the livestock industry, the meat industry, the poultry industry, and similar groups.

I cannot say to you without reservation that there is full cooperation with this program. Much more should be done to encourage grain conservation; more could be done with adequate facilities to handle this special undertaking. We are encouraged by the progress that has been made, but the tightest pinch on our feed supplies will come in the months ahead, and we can expect increasing difficulty as we approach the next harvest. Therefore, there can be no let-up on farm grain conservation.

The farm grain-conservation program has been carried on with the regular facilities of the Department. The same is true of the special information services we are providing for the housewife in the whole conservation effort. The burden of these special services has been added to the duties which the Department already is required by legislation to perform, and these facilities should be strengthened with the modest addition of funds that would be needed to keep this program going full force next spring and summer.

The second point under No. 6 is to authorize measures designed to increase the production of foods in foreign countries. What we seek is a means of offsetting the risk that comes with too much of the world depending upon what happens to the weather and to food production in this country. We cannot hope to produce all of the extra food Europe needs now or may need in the years immediately ahead. Nor can we hope to maintain an export market for food in the future as large as that we are now supplying.

The success of the recovery program in Europe must not be jeopardized by depending upon the United States for supplies which this country cannot produce. For 10 years now we have been gambling on good weather, and luck has been with us, but every year the odds

rise higher and no one can foresee what crop conditions may prevail here or elsewhere during the several years before Europe gets back on its feet.

The security of the world is too important to entrust as much of the food burden to one country as is now being carried by the United States.

In justice to nations who need our help, in justice to ourselves and our efforts to hold back inflation, we must see that the risk and the responsibility are spread more widely than at present.

For the years 1934 through 1938, world exports of all grain averaged 28,387,800 long tons. Of this amount the United States supplied only 4.6 percent. Last year the total of world grain exports was almost exactly the same: 28,443,600 long tons. That is a difference of less than two-tenths of 1 percent. But last year, out of the total amount of world exports of grain, the United States alone supplied 52.4 percent.

This tremendous volume of grain exports can only be supplied by the United States under abnormally favorable weather conditions and by putting a drain on our soil resources too great to be long continued.

Many countries have natural resources to produce more food than they are now producing. If information, technical help, or money incentives could substantially increase production in such areas, we should certainly use such means to encourage greater production. There is one form of encouragement that could and should be used by the importing countries, and that is to make known their needs far enough in advance to provide a stimulus to production. When these needs are not made known until after harvest, they serve as a stimulant to price rather than to production.

During the war we learned something about procurement in foreign lands that should be useful now. We found that the offer of incentives and assurances was effective in getting needed commodities. If we can get increased agricultural production elsewhere in the world, it will contribute materially to the economic recovery of the needy nations and at the same time lighten the strain on our land resources and our entire domestic economy.

To accomplish this purpose, we shall need specific authority for the Commodity Credit Corporation to enter into arrangements that may be necessary with other governments. Necessarily the authority granted by Congress would have to be broad in order to permit to a considerable degree of flexibility meeting the varying conditions. The purpose would be to permit the Corporation to operate in such a manner to make the greatest contribution to the foreign-aid program and at the same time minimize the abnormal demand on our own scarce commodities.

Now, I would like you to consider for a moment the grain supply situation in relation to our ability to supply needy foreign countries. The two key figures from which an analysis of the wheat and feed situation must start are the record wheat crop of 1,407,000,000 bushels and the corn crop of 2,447,000,000 bushels, which is 841,000,000 bushels below last year's corn crop.

This season's wheat harvest, together with the carry-over of 84,000,000 bushels, gave us a total supply of 1,491,000,000 bushels. Of this amount, we may use as much as 510,000,000 bushels for food, about 85,000,000 bushels for seed, and around 250,000,000 bushels for feed,

including farm waste. This gives an estimated total use within this country of 845,000,000 bushels, and leaves 646,000,000 bushels for export and carry-over next July 1.

How much of this wheat can we or should we export? In terms of human need, the answer is, of course, as much as possible. In terms of figures, the answer is somewhere between 400 and 500 million bushels of wheat, depending upon the amount of old wheat we decide we need to have on hand next July 1. And the amount of old wheat we need to have on hand July 1 will depend to a considerable degree upon the prospective outturn of the 1948 crop.

I feel that if possible we should not allow the carry-over on July 1 to go below 150,000,000 bushels, and on this basis we could export as much as 500,000,000 bushels of wheat. But if we wanted to carry over as much as 250,000,000 bushels next July, which would give us a sizable reserve above ordinary working stocks, exports would have to be held to about 400,000,000 bushels. The answer cannot finally be given until next spring when we have a pretty good idea of the size of the 1948 wheat crop.

The State Department has used the figure 520,000,000 bushels of all grain, as the basis for estimates of the amount of interim aid needed to finance grain exports, and this seems to me for the time being a very good figure for total grain exports for this crop year ending July 1. It is halfway between the indicated minimum and maximum limits of 470 to 570 million bushels, and includes 70,000,000 bushels of coarse grains, which leaves a total of 450,000,000 bushels of wheat.

I think I should add there parenthetically, Mr. Chairman, that I was surveying last night the exports of coarse grains, and watching the movement of oatmeal and things of that nature, corn meal, and I think that our export of coarse grains is likely to be fully up to that figure and may be somewhat above that figures, but that would not change, in my mind, the wheat-exporting figures in the slightest. It might mean that we would export as much as 80,000,000 bushels of coarse grains, and we might even go a little above that at the present rate of movement of oatmeal and corn meal, things of that nature. I gave you that figure only because it is preliminary and, of course, a very tentative estimate. We have, however, exported more than 67,000,000 bushels already, and I think the 70,000,000-bushel figure will be quickly reached and we may go on beyond that.

I put that in because these conditions change day by day and I think that the committee before whom I am currently testifying should have the latest available figures we have.

The amount of grain already accounted for by Government and commercial exports plus Government purchases for export, totaled about 398,000,000 bushels on November 19. As of that date the Commodity Credit Corporation actually owned or had purchased 265,000,000 bushels of wheat and flour in terms of wheat equivalent, while commercial shipments of wheat and flour scheduled for the first 7 months of this fiscal year totaled 66,000,000 bushels, making a total of 331,000,000 bushels of wheat so far actually accounted for. The difference between this total and the amount we eventually export is the size of the wheat and flour-buying job which is still ahead.

About 67,000,000 bushels of the estimated 70,000,000 bushels of coarse grains to be shipped this fiscal year have already been accounted

for. This amount, plus the 331,000,000 bushels of wheat, adds up to the total of 398,000,000 bushels of grain already accounted for.

In addition to wheat and coarse grains, we will again have available for export substantial quantities of rice, beans, and peas, fats and oils, certain dairy and poultry products, dried fruits and fruit juices, and some vegetables and meat.

While the caloric cost of other foods is greater than the caloric cost of grain, I feel that we should arrange to make it possible to supplement grain shipments with exports of other foods, especially in the case of foods that are available in such large quantities as to be in distress on the domestic market. Dried fruits are in this situation right now.

Foreign countries, short on dollars and long on food needs, naturally want to buy grain because they can feed more people with the same amount of dollars invested in grain. Therefore, in order to export other commodities, of which we have greater supplies than we need, we should have authority to dispose of commodities purchased under any price-support program as a part of our program to relieve need in foreign countries. This could be done either by authorizing the Commodity Credit Corporation to sell such commodities at a price equivalent to the domestic market price of wheat on a caloric-value basis or by authorizing use of interim-aid funds for the same purpose.

Personally, I feel that it would be preferable to use interim aid funds to make possible the export of commodities acquired under price-support operations rather than to involve the Commodity Credit Corporation in relief operations. Up to now the Commodity Credit Corporation has acted only in the capacity of purchasing agent in acquiring commodities for foreign countries or for other agencies of Government handling feeding operations abroad, and I feel it would be best to keep the operations of the Corporation on this basis. But the policy of using these supplemental foods on the export program should be established regardless of the method of financing.

I mention that particularly before this committee, Mr. Chairman, because this committee has the responsibility for our Commodity Credit Corporation legislation and the formulation of its policies, and I naturally want to be guided by the policies laid down by this committee for the conduct of the Corporation.

If you share my feeling that the export of these foods should be a charge against interim aid so that we can keep track of the amounts we actually use in interim aid, then, I naturally would be glad to have this committee sustain that sort of position by action upon the floor of the House or by its own recommendations for this purpose. If you feel that it is desirable to finance this interim aid directly from Commodity Credit funds, and then apply to the Treasury for reimbursement of those funds, we will have no objection to that course in the Department. My feeling is that it is easier to measure the cost of aid by taking it all out of the same appropriation than it is to have side appropriations, perhaps, that are chargeable against the impairment of capital of the Commodity Credit Corporation.

May I at this time refer to the dried fruits in California, for example, which we are purchasing. General Clay does have, in his

program in Germany, need for these dried fruits. They are costing us, let us say, 7 cents a pound. He feels he should have them at 5½ cents a pound, or, at the most, 6 cents a pound. I do not think that difference is large enough for us to hold up on the purchase of these dried fruits, and we are proceeding to buy fairly sizable quantities of these dried fruits which might otherwise be wasted. It seems too bad to waste any food at a time like this. So we propose to go ahead and procure these dried fruits.

Now, the point immediately arises: should we then sell them to General Clay at a loss to Commodity Credit Corporation, or should that be charged against the appropriations of the Army and the armed services. Similarly, if we should sell to Governor Griswold's administration, in Greece, additional quantities of these fruits, should that be charged against the State Department's appropriation for those countries, or should it be taken from the Commodity Credit Corporation funds? I was not sure that my testimony raised that point sufficiently forcibly to you; therefore, I do say that it is something upon which we desire the guidance of this committee. We have no fixed determination on it. We are perfectly willing to take it either way this committee and Congress decide. I am merely expressing my personal conviction that it is wiser to keep all the costs of this interim aid in one appropriation, all the costs of the military occupied areas in that appropriation, and not go back to the Treasury for sums which would represent needed appropriations due to the impairment of Commodity Credit capital.

Mr. SMITH. What difference would it make to the taxpayer?

Secretary ANDERSON. Not one bit of difference to the taxpayer at all, Mr. Smith. The only difference it makes is that if at some later date somebody wanted to establish how much was actually used in the program in Greece, you would find the figure more accurately if you took it all from that one figure than if you took that figure and then had to go over and examine the Department of Agriculture to see if we had anything there. And I just thought it was better to bring it all in one place, so that the persons would know exactly what the total amount was.

Mr. SMITH. You mean it would be a little less bookkeeping.

Secretary ANDERSON. I think a little less bookkeeping; yes, indeed.

The CHAIRMAN. If there was an impairment of the capital of the Commodity Credit incident to that operation, we would have to restore that capital out of the Treasury?

Secretary ANDERSON. Yes; it does not make a bit of difference, as far as the Treasury or the taxpayer of the United States is concerned. I think it does make some difference from the bookkeeping standpoint, and from being able to keep track of what you are actually spending within one of those industries.

Furthermore, we think it is better to run the Commodity Credit Corporation as a purchasing agency for these other countries.

Now, let us turn to the feed-supply situation.

The CHAIRMAN. You say it is preferable to use the Commodity Credit Corporation?

Secretary ANDERSON. I simply say that we would like to use the Commodity Credit Corporation in these programs as a purchasing agency and not as a relief agency.

Now, let us turn to the feed-supply situation. The key fact is that this year's corn harvest is 841,000,000 bushels smaller than the crop harvested in the fall of 1946. We are assuming that our stocks of old corn will be reduced next fall to about 140,000,000 bushels as compared with the 289,000,000 bushels on hand as of October 1 of this year. Such a carry-over would provide little reserve against a bad crop next year, but it would be reasonable to assume that next year's crop will be well above the short crop now being harvested.

A study of this year's suggested production goals which we have recently referred to the States will show that American farmers are again being asked to continue all-out production in 1948. Those goals also are reproduced at the end of the Senate testimony of Monday.

We are suggesting additional corn and grain sorghum acreage. The wheat acreage goal is slightly under actual wheat plantings of last year, but above the 1947 goal. Suggested acreage for most other items, except tobacco, continues at about this year's level. The goals are sufficiently high as to indicate to any farmer the need for all-out production. If planting conditions do not favor one particular crop, there is still something that is needed just as much that might be planted a little later.

With favorable prices and continued maximum production, there will be continued heavy demand for fertilizer. Fortunately, this year we will have available more commercial fertilizer than ever before—about double the prewar quantities. Despite this fact, supplies will not be sufficient to meet all farmers' requirements. Nitrogen will be particularly short of demand.

Food supplies for domestic consumption for 1948 are expected to continue well above the prewar average. Food consumption in this country during the last 2 years has been running around 17 to 18 percent per capita above the prewar average. Next year it is expected to be 13 to 14 percent above the prewar average. The outstanding item in this reduction is meat. The amount of meat available per capita during the coming year will probably be about 146 pounds compared with 156 pounds for the calendar year 1947. The decline will be most pronounced in the spring and summer of 1948 when supplies may run as low as 130 to 140 pounds per person on an annual basis.

In spite of the heavy shipments for foreign aid and the reduction in meat supplies, the American consumer will continue to eat very well.

I have attempted to summarize all the way through this statement by giving key facts and figures. Therefore, I shall not try to summarize the summary. But, in closing, I would like to refer to the reasons behind all this.

President Truman stated the basic facts simply and clearly in his message to the Congress:

> If we neglect our economic ills at home, if we fail to halt the march of inflation, we may bring on a depression from which our economic system, as we know it, might not recover. And if we turn our backs on nations still struggling to recover from the agony of war, not yet able to stand on their own feet, we may lose for all time the chance to obtain a world where free peoples can live in enduring peace.

I have no reservation in saying to you that I believe the measures under discussion to be, as President Truman said, "vital and essential to the welfare of the Nation."

Only one final thing, Mr. Chairman, and that is a chart of which copies have been placed before you. It is a chart that we, in the Department of Agriculture, have been looking at carefully these last few days and months. Starting with 1800 it shows you that we have had three very substantial peaks in prices, wholesale prices of farm and nonagricultural prices, in the United States, that they built up rapidly. This chart illustrates that in the early 1800's you had a very high peak of nonagricultural products and a rise in farm prices as well, and then, as that followed a war, it turned down very sharply thereafter. Then, we came along to the War Between the States in the sixties, and we have a very sharp upturn in agricultural prices and nonagricultural prices in which nonagricultural prices, of course, led agricultural prices somewhat substantially, and then a rather gradual tapering off of prices comparatively speaking, but nonetheless a very sharp drop in prices.

Then, you go into the period of World War I, where you had this very substantial lifting up of agricultural and nonagricultural prices and then a very precipitous drop.

Again we have reached the point today where prices are moving upward. As a matter of fact, since this chart was prepared agricultural and nonagricultural prices have moved still higher than the level that we show. The only reason I become anxious about these controls is that I wonder how much longer the line will continue upward and what sort of a downward line we will have if we have one. Will it move downward precipitously as it did after the last war and as it did after the War of 1812 or will it move down somewhat more gradually as it did after the 1865 period, or how will it move downward or will it remain up. I am not able to predict that, but I would think the tendency probably is that it might move downward.

We believe if we can prevent some of these extremely inflationary things—and there are only a few of them in the whole agriculture picture, meat and grains—from getting out of hand, that we may have a chance to move it down in a fairly orderly fashion.

I think that is all that I wish to say at this time, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, what do you think the primary influence on wheat prices is?

Secretary ANDERSON. Consumer purchasing power.

The CHAIRMAN. At home or abroad or both?

Secretary ANDERSON. Both.

The CHAIRMAN. How much influence do you think the foreign demand for food has had on domestic food prices?

Secretary ANDERSON. I would not say it did not have any influence, but I think the greatest single influence we have is the very large purchasing power at home. When I look at meat, for example, a product that we are not exporting at all, I find it moves up just as rapidly, if not more rapidly, than these others. I look at cocoa prices, which have no relation to a foreign export program, and they go clear out of sight. And, as we go through the list of commodities, the things we are exporting do not seem to move up any more rapidly than the things we

are not exporting. So I concluded the presence of strong, active, vigorous consuming power on the part of the American public is probably, to a major degree, responsible for high prices.

The CHAIRMAN. What is the other item besides meat?

Secretary ANDERSON. Meat and the cereals are the ones where I think we stand the greatest possibilities. I was going over a chart yesterday, Mr. Chairman—I never can think to bring along all the things I might want—which showed the agricultural products that were up over last year, and the agricultural products that were down as against last year—and about as many of them were down as were up—the difficulty was that the things that were down were citrus and other types of fruits, tobacco, and so forth.

Food grains are 137 percent of last year, feed grains and hay are 152 percent of last year, tobacco is down 89 percent of last year—and I say that is the thing that is sort of regrettable, that the drops are in so many things that do not relate to food, therefore when you are dealing with food needs, you do not get much comfort out of reading those—cotton is 185 percent of last year, food is 89 percent of last year, dairy products 92 percent, poultry and eggs 190 percent.

So that there are some things which are up and some things which are down, but the greatest pressures seem to be upon meat and cereal products.

The CHAIRMAN. Let us take wheat as an example. What effect has the export of wheat at the present ratio to available stocks on wheat prices?

Secretary ANDERSON. Well, it has probably tended to stiffen prices, bue we might look at it this way: There were many years when the production of wheat in this country got down to 700 or 750 million bushels. We had this year a crop of 1,400,000,000 bushels. We conceivably cannot possibly ship more than 500,000,000 bushels, the maximum as I see it, 500,000,000 bushels. If we take those 500,000,000 bushels over the 1,400,000,000 bushels, we have a figure that is larger for wheat than we have ever used in this country and, therefore, you can say that the abnormal crop made you a present of all the export program, and you still have left more wheat than we ever used in this country but still the price is high.

The CHAIRMAN. We have had the largest wheat crop in our history this last year.

Secretary ANDERSON. That is correct, last year's crop was the highest by 250,000,000 bushels.

The CHAIRMAN. And we are export about half of that crop?

Secretary ANDERSON. Oh, no, we are exporting between a third and whatever five-fourteenths would be.

The CHAIRMAN. Between 30 and 40 percent?

Secretary ANDERSON. Yes.

The CHAIRMAN. Between a third and 40 percent?

Secretary ANDERSON. Yes; between 30 and 35 percent. I do not believe it goes quite as far as 40 percent. But we are exporting a very substantial quantity.

The CHAIRMAN. Of course, if it was not for the export of wheat this year we might expect the domestic price of wheat products to be perhaps ever so much lower than they are?

Secretary ANDERSON. Yes; if we had locked our doors and not ex-

ported a bushel of wheat, I imagine that we would have been supporting the price of wheat at about $2 at the market, during the year.

The CHAIRMAN. How have our imports of meat been running in comparison with what they have been in the past years?

Secretary ANDERSON. Exports?

The CHAIRMAN. Imports.

Secretary ANDERSON. Imports of meat?

The CHAIRMAN. Imports of meat.

Secretary ANDERSON. I would say that we have been importing very little meat, practically none. Our imports of meat were 262,000,000 pounds in 1935 to 1939 and about 50,000,000 pounds in 1947, as against a meat production in 1947 of 23,000,000,000 pounds. The amount of meat imports is relatively small, and always has been. As a matter of fact, the average meat production in the years from 1935 to 1939 was only 16,000,000,000 pounds, and we have a production of 237,000,000,000 pounds this year, so that a dropping off from 262,000,000 to 50,000,000 pounds is rather unimportant in the total picture.

The CHAIRMAN. Where has the meat been going that we used to import? We used to import Argentine meat.

Secretary ANDERSON. We did not import Argentine meat in a very, very long time.

The CHAIRMAN. Excepting in cans?

Secretary ANDERSON. Oh, very little of that. We did import some, and we are importing some now, but very little. About 2,000,000 pounds of meat is all that we have imported and that is a trifling amount.

The CHAIRMAN. Can you give that to us in percentages as compared with 1929?

Secretary ANDERSON. Mr. Wells will give it to you in a moment.

The CHAIRMAN. What I am trying to get at is this: Is the meat which we would usually import going to other foreign countries?

Secretary ANDERSON. Yes.

The CHAIRMAN. Does that aggravate the situation here at home which might result in higher prices?

Secretary ANDERSON. No; I do not think there is anyone who would even remotely suggest that the lack of import of meat in this country has had anything to do with domestic prices. There is one factor that should be mentioned. We normally brought across the border at Mexico a few hundred thousand cattle and took them into pastures in the southeastern and southwestern part of the United States, fattened them and brought them as grass-fattened into the Kansas feed lots and then finally found their way to market as beef.

Those Mexican cattle were generally—I do not know the term, but stringy—they were rather unpromising looking sometimes, and a good deal of time was spent in fattening them, but just the same we did get some beef from that source which we are not now getting.

The CHAIRMAN. I suppose, with respect to grains, about the same situation would apply to all grains as applies to wheat with respect to the influence which buying for foreign account has on domestic prices?

Secretary ANDERSON. Well, the corn situation, of course, has been, in my opinion, probably the big influence on the wheat market, steadily. The corn crop is rather small—2,440,000,000 bushels or so—

and we generally expect 2,600,000,000 or 2,700,000,000 bushels of corn. We had a record crop a year ago of 3,300,000,000. And that added to our carry-over very substantially. But when we got this rather small crop this year it did influence the price of all the grains. You cannot have a corn market that is steadily moving upward without people who trade in wheat getting a little excited also.

The CHAIRMAN. We have not heard much about the participation by any other countries, other than the United States in this interim or long-range relief program which is considered to be essential, especially in western Europe.

Whenever I have attended these meetings at the White House and before the committees of Congress very little has been said about any obligation on the part of any other country to help stabilize world conditions by contributing proportionately to the needs of western Europe especially. Can you discuss that? In other words, why should the United States have to assume this whole burden? In your statement before the Senate Agriculture Committee, on page 12, you end up your statement by saying, "By acting promptly and adequately, we can prevent a great deal of difficulty and by so doing we shall wholly open the world's chance to make a just and lasting peace. Only we have the opportunity." Which inspires thinking, of course, on whether we are the only ones who have the opportunity or the obligation to help stabilize world conditions.

Secretary ANDERSON. To answer your question, Mr. Chairman, I would say that there are many areas where it would be possible for a greater contribution to be made. Nearly every one of those lands has problems that eventually seem to find their way back to our doorstep for assistance. There is, in one of the countries, on which we have had some discussions, an available supply of foodstuffs. It has been suggested that that country was not willing to bring those supplies out, but an examination of the situation within the country reveals that they need trucks, they need petroleum products, they need a great many things that they are not able to buy, and they, therefore, have said to us, "If you will get these materials to us, if you will supply them at world prices to us, we may be able to move very substantial quantities of grain at world prices."

The CHAIRMAN. Just a moment right there. You mentioned that these countries have said to us, "We can move grain to foreign countries if you will sell us your petroleum products; we will sell you our foodstuffs for consignment to western Europe."

Yesterday we had testimny here that because of the petroleum situation, that is, because of the shortage of petroleum products, we might have to put price controls back on petroleum products. Are you using petroleum advisedly or is that perhaps an unfortunate example?

Secretary ANDERSON. Well, only because there is a possibility, again—I am just trying to show that there is a relationship between these things—that there is another country who has petroleum who wants to make contributions, but who is short of certain types of grain. If we could get tractors into one area, for example, they might be able to get grain into another which has the petroleum required by another—there is a great job of international bargaining that I think still needs to be done, and while I am not advocating the export of petroleum from this country, I believe this country does have some

things which might free the export of petroleum from certain other lands and other short goods.

The CHAIRMAN. You do not want to say, Mr. Secretary, that their participation in this program is predicated upon our making available to them goods which they need?

Secretary ANDERSON. I do not say that it is predicated upon that. I say that their participation could be far greater if we had the same type of cooperation working now that we had between countries of the earth while we were in the midst of military endeavors. I have just been hopeful that countries could fight together against hunger in peace as successfully as they fought a common enemy in war.

The CHAIRMAN. Let us take up Chile. Why cannot Chile export fertilizer and relieve us of the necessity of shipping fertilizer to Europe?

Secretary ANDERSON. I think a great deal of the fertilizer going to Europe under the interim program does come from Chile.

The CHAIRMAN. Financed by us.

Secretary ANDERSON. I do not know.

The CHAIRMAN. Do they finance it themselves?

Secretary ANDERSON. I do not know. The question of financing on the entire interim aid program and other export programs is done through the State Department and they can answer the question, I am sure. But I do not know. I am sorry that I do not know, but it is a matter that we do not go into at all as to how these arrangements with other countries are made.

The CHAIRMAN. Well, did the scarcity of American dollars enter into the question of participation by other countries? Are they so anxious to get American dollars that they are holding up this aid, bargaining with us for the exchange of goods with dollars before they will ship their goods?

Secretary ANDERSON. I would not know. Again you are out of my field.

The CHAIRMAN. What I am getting at is this: If that is true, then, the credits which are made available for the movement of those goods, thrown into our credit pool, all add to the volume and velocity of the movement and that has an effect on domestic prices.

Secretary ANDERSON. Yes. Well, I do not know what the dollar situation is with reference to those areas where additional supplies might be obtained. I assume they are short of dollars, all of them. But I do not know.

The CHAIRMAN. There has been some discussion in weeks gone by, or some suggestion, rather, that the Commodity Credit Corporation and the Export-Import Bank do this interim aid job. I think it was agreed, especially with respect to the Export-Import Bank, that we would need new legislation because of the improbability that the countries would be in a position to justify a loan from the Export-Import Bank under its present standards. The Export-Import Act requires, in substance, that there must be a reasonable expectancy of return, or something to that effect.

What is the situation, if you know offhand, with respect to Commodity Credit? Why could not Commodity Credit Corporation be used to acquire these foods, and why could they not create the credits for the purchase and distribution of these foods for the interim aid program?

Secretary ANDERSON. Because I think there have been commitments that we will not do it, to the committees from whom appropriations have been obtained. I think that was the difficulty when that possibility was explored.

The CHAIRMAN. Is there anything in the law?

Secretary ANDERSON. There is nothing in the law that prevents it.

The CHAIRMAN. There is nothing in the law that prevents the sale of the commodities which they buy, ostensibly to support prices, anywhere in the world? They buy ostensibly to support prices; is that not right?

Secretary ANDERSON. I think that is correct. There is nothing in the law.

The CHAIRMAN. They sell anywhere, excepting—verbal commitments made to a committee of Congress?

Secretary ANDERSON. I do not know whether you would say verbal commitments. When you are testifying before a congressional committee and that congressional committee asks you how you are going to use the authority that is granted to you, and you say specifically that you are not going to use it to procure in advance commodities and send them to countries without getting payment, we feel that we have to live up to that commitment, and under the proposal that was made for financing interim aid by the Commodity Credit Corporation, it was suggested that we should buy food, ship it to these countries, and depend upon later reimbursement from Congress. Our solicitor took the position that it was contrary to the testimony of the Department of Agriculture in obtaining appropriations and, therefore, we could not do it.

The CHAIRMAN. Well, the question could not arise, could it, until there was an impairment of Commodity Credit capital which would have to be reimbursed by a direct appropriation?

Secretary ANDERSON. Well, I cannot tell you whether it would or would not arise. That is why I keep the solicitor. He tells me it was not right.

The CHAIRMAN. We would like to know in this committee whether there are verbal commitments by the Commodity Credit Corporation to the Appropriations Committee outside the purview of the act which we wrote in this committee. In other words, are they writing the law by verbal agreements between the Commodity Credit Corporation and the Appropriations Committee? If so, we want to know about it, and will be guided accordingly.

Secretary ANDERSON. We have to make representations to the Bureau of the Budget; those are checked by the Appropriations Committees, and so forth. I think it is not an uncommon practice for many grants given legislatively to departments of government to be restricted by the assurances that are made on the floor, of legislative intent, to things that happen within committees, and so forth. Now, I will be very happy to have the Solicitor send to the committee a letter as to why we felt that this interim aid program could not be financed by Commodity Credit.

The CHAIRMAN. Well, there is nothing in the law that prevents it?

Secretary ANDERSON. I think that is correct.

The CHAIRMAN. All right. Could not, then, the Commodity Credit

Corporation, in consultation with the committee to which they made the commitment, be relieved of that commitment, officially, to carry out the interim aid program on food?

Secretary ANDERSON. Mr. Chairman, I think I could repeat partially what a member of the Solicitor's staff has said to me. I would rather he would say it to you, but apparently, under the law, we have commitments that we will not sell to foreign governments except for adequately secured credit.

The CHAIRMAN. Commitments to whom?

Secretary ANDERSON. In the law.

The CHAIRMAN. In the law?

Secretary ANDERSON. In the law.

The CHAIRMAN. Well, that changes the picture.

Secretary ANDERSON. The question of what adequately secured credits are, I believe Mr. Shulman can give you the law.

Mr. SHULMAN. Section 21 (C) of the Surplus Property Act allows us to sell commodities at competitive world prices on adequately secured credit. So, unless we could enter into an arrangement which we were thoroughly satisfied constituted adequately secured credit, to the Commodity Credit Corporation, for the repayment of the commodities sold, I do not think we could consistently with the law make sales where the only credit we would have would be the possibility of appropriation by Congress to pay us for the goods sold. It would seem to us that that probably fell somewhat short of constituting adequately secured credit.

Secretary ANDERSON. As far as I am concerned, Mr. Chairman, I run a small insurance company, and the first thing, when we got started, my counsel said to me if I did not follow the advice of my lawyer, he said: "Always observe that a person who uses himself for a lawyer has a fool for a client." I therefore intend to follow the advice of my Solicitor on matters of this nature.

The CHAIRMAN. I was not so sure, Mr. Secretary, that you had not misspoken yourself when you said that there was no statutory prohibition against selling without adequately secured credit.

Mr. SHULMAN. This Commodity Credit Corporation could sell goods under an arrangement which could constitute adequately secured credit, if they had authority to do so.

The CHAIRMAN. We have, then, about the same situation in the Commodity Credit that we have in the Export-Import Bank. Generally speaking, the Export-Import Bank cannot make a loan and the Commodity Credit Corporation cannot make a sale unless the loans or credits are reasonably well secured. As I understand it, the administration has never asked the Congress for any amendment to the Commodity Credit Corporation Act to authorize it to do this interim-aid job.

Secretary ANDERSON. I do not know whether it would be covered by the same thing, but I know that Secretary Clayton of the State Department proposed, and I joined him in that proposal, that we be granted an appropriation—I cannot tell you exactly how much—for advance procurement for a possibility of this nature, but it was not comparable at all to the interim aid program, in my opinion. I do not think we have asked for legislation for this interim-aid program.

The CHAIRMAN. We have heard here that the Commodity Credit Corporation has been buying for the account of these foreign countries for some time. When did they start that?

Secretary ANDERSON. With the termination of lend-lease, at the end of the war, we started buying for the account of these foreign countries.

The CHAIRAN. When was that approximately?

Secretary ANDERSON. 1945.

The CHAIRMAN. August, July?

Secretary ANDERSON. No; it was later.

The CHAIRMAN. Midsummer, as I recall it.

Secretary ANDERSON. It was in the fall. After the close of the Japanese phase of the war.

The CHAIRMAN. You left to go to England on August 14, on VJ-day, and lend-lease had been stopped in the European theater previous to that, and was stopped in the Pacific theater a little after that.

Secretary ANDERSON. I think the middle of the summer is a better answer. That is correct.

The CHAIRMAN. To whom were they selling the foods which they were buying for foreign account? Under what conditions were they disposing of this food they were buying for foreign account? Where did they get the credits, and how were they secured?

Secretary ANDERSON. These European countries would deposit money by letters of credit or actual deposits of cash. I know that the British Government made a very large deposit at one time under a letter of credit and also a deposit of cash that ran to millions of dollars for their procurement.

The CHAIRMAN. So that you got the security provided for in the act before you purchased the goods?

Secretary ANDERSON. Yes, sir. We still are, as a matter of fact.

The CHAIRMAN. What quantity of foodstuff has the Commodity Credit Corporation acquired for foreign shipment which has not been moved, where you have not yet received the credits or the security to justify the movement of the goods under the act?

Secretary ANDERSON. It is pretty hard to divide up your quantities of wheat between the countries that we would normally ship to under this arrangement and the countries where the military are in occupying areas. It would be limited to small quantities of wheat beyond our January shipping dates. We have 45,000,000 bushels——

The CHAIRMAN. Let us put it this way: they have been buying wheat or other foodstuffs recently in addition to that which was necessary to support the prices?

Secretary ANDERSON. We have not been buying any wheat to support prices.

The CHAIRMAN. Well, to carry out the purposes of the Commodity Credit Corporation?

Secretary ANDERSON. Yes.

The CHAIRMAN. Have you been buying any foodstuffs through Commodity Credit which were not for the purpose of carrying out the purposes of the Commodity Credit Corporation Act?

Secretary ANDERSON. No. The answer is "No." We have bought wheat that is not for the purpose of supporting prices, but we have not bought wheat that is not for the purposes of the Commodity Credit Act.

The CHAIRMAN. What is this testimony we hear about you buying foodstuffs early last July in anticipation of this program?

Secretary ANDERSON. Well, that is not in contradiction with the purposes of the Commodity Credit Act. As we understand it, the Commodity Credit Act does give us power to go ahead and acquire foodstuffs.

The CHAIRMAN. And hold them?

Secretary ANDERSON. Yes.

The CHAIRMAN. Have you bought any foodstuffs for the purpose of holding them, and what quantities and for what purpose?

Secretary ANDERSON. I do not know whether it is the answer you are seeking, but I do know that when grain is moving in large quantities, when it is moving to market, and when it affords us our best opportunity of procuring, we do procure in large quantities for the purpose of fulfilling programs which we have anticipated.

For instance, in July——

The CHAIRMAN. All right. That is the point. Have you bought any wheat or any other food products in anticipation of fulfilling any obligations which might occur with respect to the interim aid and long-term relief programs?

Secretary ANDERSON. Well, interim aid was not discussed when we were doing the buying. When we were doing the buying, the buying had to do with occupied areas, where the United States Government was primarily involved, for certain other areas where IEFC allocations had been made to the country, and areas where the State Department had responsibility for relief feeding. It was not a question of an interim aid program, or at least such a term was not used then.

Now, the very countries that are now considered for interim aid, Italy, France, Austria, were all countries for which we had general shipping schedules as early as last July. Italy at that time was paying dollars, France at that time was procuring and paying for it, and Austria was under the military authority.

Mr. BUFFETT. What is the meaning of that IEFC?

Secretary ANDERSON. International Emergency Food Council, which is the international allocating authority.

Mr. BUFFETT. Of this Government?

Secretary ANDERSON. Of many governments. This Government is a member of it. It is the allocating authority.

Mr. BUFFETT. Thank you.

The CHAIRMAN. It was said here recently that for the last 2 months Commodity Credit Corporation has been buying in anticipation of meeting commitments to be made under this interim-relief program.

Secretary ANDERSON. Was it said by the Department of Agriculture? I do not believe so. We are buying generally for conditions that we know are going to be before us; namely, the supplying of wheat to Germany, the supplying of wheat to Japan and Korea, and the probabilities that we will have requests—as we do have requests—from many other areas that still have cash to pay for it, and the possibility that State will have need for it under special relief programs.

The CHAIRMAN. What is that last one?

Secretary ANDERSON. The possibility that the State Department will have need for it under relief programs.

The CHAIRMAN. Did you have in mind the emergency program?

Secretary ANDERSON. But we do not buy specifically for that. We buy general over-all amounts, knowing that if the State Department does not have such a program we have many places to put it.

The CHAIRMAN. When did you start anticipating that the State Department might have need for this food with respect to emergency relief measures?

Secretary ANDERSON. When the Congress voted that there should be things done for Greece, Turkey, and various other nations.

The CHAIRMAN. That is sufficient for the purposes of the question.

What effect has this buying for foreign account by the Commodity Credit Corporation had upon the activity in the commodity exchanges?

Secretary ANDERSON. I do not know that I can answer that except to say that, whether we had or had not bought for one of those countries, we would have tried to procure something over 400,000,000 bushels of wheat. We would have needed that, whether any of these countries had been in the picture or not, to try to take care of what General Clay and General MacArthur would like in their respective theaters. And we find, for example, that it is a pretty difficult problem to have to say to them that we can't supply them yet with all the grain they want, or even come close to it. We will not, this year, come close to supplying the amounts that General Clay thinks are desirable in Germany; and we are going to have to disappoint General MacArthur pretty heavily on his program for Japan and Korea, I am sorry to say. We are not able to touch India hardly at all.

The CHAIRMAN. You do not say that the buying for these foreign programs has had no effect upon the activity of the commodity exchanges.

Secretary ANDERSON. I would not say that it has had no effect. Buying for this interim program has had the same effect as buying for the occupied areas programs has had. What I have tried to say, however, is that if you were to ignore entirely the total exports that we may make under this present program, after you take out the four or five hundred million bushels, you would still have left in this country what is larger than a normal wheat crop. So that, if you could set aside all the wheat that we needed, there still remains in this country far more than enough wheat to take care of what we normally have used out of last year's crop.

The CHAIRMAN. What I am getting at is that if it had not been for the buying for foreign account expectancy there would be less activity on the exchanges, due to the fact that there would not be expected any particular rise in wheat prices, and therefore the gambling element would be perhaps almost nonexistent. Do you see what I am getting at?

Secretary ANDERSON. Yes, indeed.

The CHAIRMAN. The argument is made that the gambling was caused by the buying for foreign account.

Secretary ANDERSON. We would have liked it better if we could have done what we did in the case of wheat by merely setting aside several hundred million bushels of wheat and said, "That is it."

But I do not believe that anybody would contend that if we had set aside, by some power which we did not possess but which we did have in the case of meat under the War Powers Act, 500,000,000 bushels of wheat and announced that we were going to take it out of the market and thereby leave 900,000,000 bushels of wheat—which is

more than enough for domestic food, feed, and seed and still would supply us with substantial quantities for the building up of stock piles—I do not believe that anybody would contend that the price of wheat would not have moved up.

Mr. BUFFETT. Is it not true, Mr. Secretary, that the price of wheat always bears a definite relationship to both corn and oats, and that any fair picture of price prospects on wheat has to take into consideration the production and supplies of corn and oats? They are all one picture; and in the last 12 months of this year the supply of oats was less than a year ago, and the supply of corn, as you say, was down 850,000,000 bushels, roughly; and the total supplies of wheat, corn, and oats—the three major feed and calorie grain crops—were substantially lower than last year.

Secretary ANDERSON. The quantities of all of them are lower than last year, but we were exporting, last year, tremendous quantities of corn, and we have exported tremendous quantities of corn in the past.

What I say is that if we take out the whole export program there is more than enough of these to take care of our domestic economy, and that hardly explains the rise in prices.

Mr. BUFFETT. Well, you cannot take the excess wheat out of the market and say that, because we still have a normal crop of wheat, there would not have been a rise, and when the facts of the situation related to grain generally——

Secretary ANDERSON. I did not say there would not have been a rise. I said there would have been a rise. I simply said that if you leave out the export quantities you still have more wheat than they will use in this country. Figure 500,000,000 bushels as food. Add another 250,000,000 bushels as maximum, now—and it may drop below that—for feed; allow 85,000,000 bushels for seed, and you still have a margin to put into extra stocks over and above all the export program.

Mr. BUFFETT. Of course it is not too important, but is it not true that our carry-over was probably at the lowest point in our history?

Secretary ANDERSON. Well, it was close to the lowest point. Three times we have been down to 84 or 85 million bushels of wheat. The average, from 1919 to about 1929, was somewhere along about 117,000,000 bushels, and we carried over 84,000,000 bushels.

Mr. BUFFETT. Of course the population is now substantially larger than then.

Secretary ANDERSON. Yes.

Mr. BUFFETT. It is true, is it not, that Canada, with one-twelfth of the population, is carrying over as much as we are carrying over this summer?

Secretary ANDERSON. I do not recall its carry-over. But you must remember that Canada has problems of shipping that we do not have in the United States. They have to get their wheat to the head of the Lakes by a certain period or it does not go out.

Mr. BUFFETT. They are not scraping the bottom of the barrel as we are.

Secretary ANDERSON. I am not a very good judge of other people's efforts.

Mr. BUFFETT. The fact is that they carried over about 84,000,000 bushels, with one-twelfth of the population, whereas we carried over 82,000,000 bushels with a population 12 times as large.

Secretary ANDERSON. I do not believe the amount of the population is controlling.

The CHAIRMAN. Mr. Secretary, if you had adequate authority—or if the administration had adequate authority—over export controls, to the point where it could balance foreign needs against domestic needs, would you need the authority contained in point 5 "to authorize measures which will induce the marketing of livestock and poultry at weights and grades that represent the most efficient utilization of grain"? Or point 7, "To authorize allocation and inventory control of scarce commodities which basically affect the cost of living or industrial production"?

Secretary ANDERSON. I would hardly know how to answer, Mr. Chairman.

The CHAIRMAN. Is this not our whole problem here: If we have an obligation to feed these people—and we assume that we do, proportionately to the extent that we can—and at the same time stabilize our own economy, because I think that is of primary importance, do you not think that our problem here is one of balancing demand abroad against stability at home?

Secretary ANDERSON. I do not know exactly how to balance demand abroad against stability at home.

The CHAIRMAN. Here is what I have in mind: Under the Bretton Woods agreements the currencies of something like 43 countries are just about as effectively tied to the American dollar as they formerly were to gold. Any fluctuations in the value of the American dollar are immediately reflected in the value of curencies throughout the world, and it is of primary importance that we stabilize our own economy in order that we may have a strong, stable dollar.

Now, having that in mind, the essential obligation which we owe the world under the Bretton Woods agreements is to stabilize the American economy. Do you not think that perhaps we have got to balance our foreign demands against stabilization of our own economy, helping them stabilize their economy so that they can get back on their feet that much quicker?

Secretary ANDERSON. I think we can stabilize our economy most effectively by making sure that the large amounts that we take for export into other lands do not throw us into a situation where we have extreme shortages in one spot—lack of grain for essential uses somewhere else—and therefore I do believe that these authorities suggested in item 7, giving power to allocate, coupled with export controls are the best possible protection we can have for our domestic situation.

For instance, we have wild competion every time we get short of grain. The farmers out in the Northwest and the farmers in the New England States, those two areas were particularly distressed during the spring of 1946 because the Government had moved out under a certain program and taken great quantities of grain out of the Northwest and out of the areas that normally supplied the Northwest. That left them without grain for their poultry industry, and we encountered a situation where everybody was bidding for grain. People who had poultry wanted to keep their customers. People with dairy stock wanted to keep their customers, and people were rushing into the market purchasing tremendous quantities of grain.

When we came out with allocation orders and said how much of their supplies they could have for bakeries, how much they could have for poultry mix, and divided up in an orderly fashion the rather small quantities we had, the inflationary aspect seemed to disappear from the grain market and we did have a more stable economy.

The CHAIRMAN. Yes; but what happend to the processors?

Well, that is another question. How would you, in practice, put into effect such a program? How would you control inventories?

Secretary ANDERSON. Well, we did that all during the war. We have had rather extensive experience with inventory control.

Mr. Farrington operated most of those, and I am sure be could discuss it better than I could.

The CHAIRMAN. Who determines, in peacetime, what commodities basically affect the cost of living or industrial production?

Secretary ANDERSON. We would not testify on industrial commodities because we would not be concerned with them in the slightest degree in the Department of Agriculture; but as far as agricultural products are concerned——

The CHAIRMAN. Do you have an organization set up to do this now?

Secretary ANDERSON. Well, we did it with many people that are now in the organization. I do not know whether you could say that we have an organization set up for it.

The CHAIRMAN. How many more people would you need to do this job?

Secretary ANDERSON. Not too many. If we had the authority we could write the limitation order, and we do not need many enforcement officers.

The CHAIRMAN. In writing the limitation order today, what commodities would you take into account?

Secretary ANDERSON. I do not think we would be writing a limitation order today—that is the point.

The CHAIRMAN. Why?

Secretary ANDERSON. Because of the present program of grain conservation. If we should have large crops again next spring we might be able to find our way through without additional limitations to those we now have.

The CHAIRMAN. You want us to give you the authority now to allocate and control inventories against the possibility that you might need that authority next spring?

Secretary ANDERSON. Yes, because when the fire breaks out you do not have the time to do the job.

The CHAIRMAN. Do you want price controls so that if next spring your allocation and inventory controls do not work you can put price controls on?

Secretary ANDERSON. Yes; as reserve powers, because it takes some time to get them ready, in the first place. If you are going to think about the possibility of having price controls next spring you have to start working almost immediately to get them ready by next spring.

The CHAIRMAN. What program would you put into immediate effect with respect to point 5—the "measures which will induce the marketing of livestock and poultry at weights and grades that represent the most efficient utilization of grain"?

That, as you say, is pretty well tied up with point 7. Do you

anticipate that you want the authority now against the possibility of having to use it next spring?

Secretary ANDERSON. When you come to the regulation of weights and grades you immediately realize that it is not possible to regulate feeding by weights and grades for all types of animals alike. For instance, there has been, in the last 25 years, the development of what we call little cattle. There was a time when you would take a steer and let it run 3 years on the range before you brought it in to market. He required very little feeding then. He was big and weighed sixteen or eighteen hundred pounds.

Now, for various reasons, we prefer, we like little cattle. Two-year-olds feed very fat. They do not weigh any more than, let us say, a rangey steer would weigh, and therefore you would not put a weight limitation on cattle.

But you could on hogs. And if you can say that hogs should not be fattened beyond 220 or 225 pounds because after that point you are largely creating fat that is not particularly useful, and therefore we do not believe that grain should be used for that purpose——

The CHAIRMAN. What effect would the existence of these powers to allocate and control inventories—which you say might not be used until next spring—and the existence of price-control powers possibly have on the production of food next year?

Secretary ANDERSON. I do not think it would have any great effect on the production of food, because I feel that most farmers would surely recognize that the probable field in which price control might first be applied would be that of meat, and I do not believe that the existence of a possible price-control authority on meat is going to influence production to any great degree.

The CHAIRMAN. Do you anticipate the use of price-control authority on anything but meat?

Secretary ANDERSON. And the possibility of cereals.

The CHAIRMAN. How would you apply it on meat if you were given the authority now? Would you freeze the prices as they are now?

Secretary ANDERSON. I certainly would not speculate as to how it would be applied because we do not plan to apply it now. I think there might be a situation that might exist at that time, and I might not want to freeze prices as they were at that time.

The CHAIRMAN. On the subject of meat, according to information which we have before the committee, the International Emergency Food Council report states that the United States has imported, on an average, 65,000,000 pounds of meat and that the 1946 exports were 1,102,000,000 pounds. The 1947 exports were estimated at 250,000,000 pounds, and the 1948 exports are estimated at a hundred million pounds.

Secretary ANDERSON. Nearly all of that is to Latin American countries. None of that is going to interim-aid countries at all.

The CHAIRMAN. Well, they are exports. Are these figures substantially correct?

Secretary ANDERSON. Yes; they are substantially correct. The export of a hundred million pounds against a total production of 23,000,000,000 pounds.

The CHAIRMAN. And in 1948, an estimate of 21,500,000,000 pounds. Is that correct?

Secretary ANDERSON. Yes. About a half of 1 percent of exports as against imports.

The CHAIRMAN. Those figures, you think, are substantially correct?

Secretary ANDERSON. Yes; I do.

The CHAIRMAN. I wish, if you have the information with you, that you would put into the record for our guidance how the current and prospective exports of wheat compare with the normal export—the 10-year average, 1936–48—in terms of the total number of bushels of our crop. Do you have that?

Secretary ANDERSON. We will put that figure in the record, Mr. Chairman.

As I indicated to you, we exported about 1,300,000 tons in a 5-year period, and we are now exporting about 12,000,000 tons—very much more.

(The information above referred to is as follows:)

Wheat production, exports, and exports as a percent of production, United States, 1914–46

Year beginning July	Production	Exports, including shipments [1]	Exports as a percent of production	Year beginning July	Production	Exports, including shipments [1]	Exports as a percent of production
	Thousands of bushels	*Thousands of bushels*	*Percent*		*Thousands of bushels*	*Thousands of bushels*	*Percent*
1914	897,487	335,702	37.0	1933	552,215	28,377	5.0
1915	1,008,637	246,221	24.0	1934	526,052	13,314	3.0
1916	634,572	205,962	32.0	1935	628,227	7,096	1.0
1917	619,790	132,579	21.0	1936	629,880	12,263	2.0
1918	904,130	287,402	32.0	1937	873,914	103,381	12.0
1919	952,097	222,030	23.0	1938	919,913	109,534	12.0
1920	843,277	369,313	44.0	1939	741,210	48,339	7.0
1921	818,964	282,566	34.0	1940	814,646	37,106	5.0
1922	846,649	224,900	27.0	1941	941,970	31,390	3.0
1923	759,482	148,979	20.0	1942	969,381	34,511	4.0
1924	841,617	257,839	31.0	1943	843,813	66,071	8.0
1925	668,700	97,368	15.0	1944	1,060,111	152,965	14.0
1926	832,213	209,093	25.0	1945	1,108,224	391,109	35.0
1927	875,059	193,919	22.0	1946 [2]	1,155,715	400,307	35.0
1928	914,373	144,392	16.0	1914–46	836,087	157,970	18.9
1929	824,183	143,337	17.0	1919–24	843,681	250,938	29.7
1930	886,522	116,278	13.0	1932–36	618,536	19,188	3.1
1931	941,540	125,654	13.0	1937–41	858,331	65,950	7.7
1932	756,307	34,889	5.0	1942–46	1,027,429	209,013	20.3

[1] Compiled from reports of the Department of Commerce. From 1923 to date wheat imported for milling in bond and exported as flour is excluded. Military exports to Europe for relief and exports handled by War Food Administration are included from 1940 to date.

[2] Preliminary.

Source: Bureau of Agricultural Economics.

The CHAIRMAN. Have you any opinion as to how much wheat we could export?

Secretary ANDERSON. We could export?

The CHAIRMAN. Yes; that we could export without the necessity for putting in these controls and at the same time maintaining the stability in our domestic markets.

Secretary ANDERSON. Yes, Mr. Chairman. The Department of Agriculture gave quite a bit of thought to that, and we have tried to indicate, in a report which was submitted to the Cabinet Food Committee and finally sent on from the Cabinet Food Committee to the President, that we could export 400,000,000 bushels of wheat without the necessity for these controls and without doing any violence to our domestic economy.

The CHAIRMAN. How much do you expect to export?

Secretary ANDERSON. That will depend on the wheat crop as it looks next spring, I would say.

The CHAIRMAN. What are the demands upon us?

Secretary ANDERSON. The demands are fantastic.

The CHAIRMAN. Well, what are the demands which you found to be reasonable?

Secretary ANDERSON. There is no hope of the world reaching the stated requirements that come in for wheat. There is a strong likelihood that the exporting nations will be able to come very close to meeting the minimum requirements and preventing starvation in any spot in the world. That would take a total export of somewhere in the neighborhood of 32,000,000 bushels, and with the improvement in the Australian situation, whereby they added 500,000 tons to their figures a short time ago, with the possibility that substantially larger shipments of grain will come from the Argentine than had originally been contemplated, with the natural savings that can be made in the husbanding of the crops within the countries, I think we can come reasonably close to a total export figure that will prevent starvation in any spot and take good care of world needs.

It would require, perhaps, an export from the United States of the full 500,000,000 bushels of wheat, and possibly 80,000,000 bushels of other grains.

But I think if our exports could reach that figure, that there need not be extreme distress in any part of the world, providing other countries continue what they are doing also, of course.

The CHAIRMAN. Just to close up my end of it, may I ask this: If the Commodity Credit Corporation—I hope this question will not embarrass you, and if you think it does, you need not answer it—do you think that the payment to the Commodity Credit Corporation for wheat shipped to France, in French francs, would be a sufficient compliance with the requirements in the Commodity Credit Act?

Mr. FARRINGTON. We have always considered that it is in terms of American currency, and it has been our thinking that acceptance of other currencies would not comply with the statute.

The CHAIRMAN. Have there been any negotiations between the United States and France, or United States and Italy, or United States and Austria, with respect to the shipment of foodstuffs and payment in their currencies?

Mr. FARRINGTON. Not so far as the Commodity Credit Corporation is concerned. We have not engaged in any such negotiations.

The CHAIRMAN. I think I should thank the committee as well as you, Mr. Secretary, for your tolerance for me taking so much of your time.

Secretary ANDERSON. Not at all, Mr. Chairman.

The CHAIRMAN. Mr. Spence?

Mr. SPENCE. Mr. Secretary, it is reported that Chairman Eccles, yesterday, testifying before the Joint Economic Committee, said that he favored the abrogation of the support of agricultural prices—unless firm controls were placed upon them, that is. It seems to me those are two very separable questions. The support of agricultural prices is to stabilize the agricultural industry.

I do not think that should be—I do not think their very existence should be tied in with whether or not controls are placed on agricultural products. What is your opinion about that?

Secretary ANDERSON. I would prefer to see Mr. Eccles' testimony.

Mr. SPENCE. All the papers carried that statement. I presume it is true.

Secretary ANDERSON. Well, I have seen some things about my testimony occasionally, Mr. Spence, with which I have not personally agreed.

Mr. SPENCE. I ask you, then, as an independent question, with no reference to Mr. Eccles.

Secretary ANDERSON. As an independent question, I would say that I do not believe that the question of agricultural supports is tied to the question of agricultural controls.

Mr. SPENCE. I think that is a very reasonable solution.

What has been the effect of voluntary controls? Have the people themselves complied with the President's request to abstain from meat on Tuesday and eggs on Thursday? What has been the general effect?

Secretary ANDERSON. I do not know. I think that Chairman Luckman of the Citizens Food Committee is quite well pleased with the voluntary cooperation on the program as it now stands. He had a tremendous difficulty with it while poultryless days were in the picture, but I think that at the present time he is very well satisfied with the cooperations he is getting from governors' committees, from mayors' committees, and the industry.

He would, of course, be the best witness on that, and I am not trying to testify for him, but I do know that he is fairly well satisfied.

We do not feel, in the Department of Agriculture, that voluntary controls on some of these things are extremely effective. For example, we believe that there might be restraint on the marketing of hogs at heavy weights—Recommendation No. 5. We think that there ought always to be, in times of difficulty—as when you are short of grain, there ought to be some limitation on the weights to which farmers could feed hogs. It is a wasteful practice which the farmers themselves recognize.

Now, well, when they can get as good prices as they can for their grains, for their corn particularly, when the livestock feeding ratios are extremely bad, then surely there is no point in permitting the fattening of hogs to excess weights and we believe that if these hogs need to continue to come at fairly large weights there ought to be some restraint on those weights.

However, in general, we have noticed, since the middle of October—the 1st of October—a reduction in the average weights of hogs reaching the markets. We feel that is not solely due—though it may be partially due—to the requests of the Citizens Food Committee and others, but we think the price of grain has a very substantial influence on that.

The farmers themselves recognize that it is unwise at a time like this to waste their dollars by putting them in feeding that will not bring them as much as the grains themselves.

Sometimes they need encouragement to do better housekeeping

jobs and a more efficient feeding program, and in that we have the strong support of land-grant colleges.

I think it would be fair to say that the University of Illinois has had one of the most active programs looking toward the conservation of grain on the farms.

They have pointed out to the farmers of that State that there are limits beyond which they should not feed their livestock, and I think they have done a very fine job. We have tried to join with them.

Mr. SPENCE. You may convince the producer, but that is to his interest. But the general consumer does not have that incentive. To request the general consumer to abstain from food is a very different thing.

Secretary ANDERSON. I realize that, but when there was an appeal for the observance of poultryless days, I would like to call your attention to the fact that there was the greatest collection of poultry on the market that you ever saw thereafter, and I think it was partly due to the fact that the American housewife was not buying as much poultry for a while. Therefore I do say that these voluntary programs do enlist some support even if they do not always reach the right goal.

Mr. SPENCE. I am going to ask you a question in which I have a little personal interest. The representatives of the tobacco growers and the warehousemen and the dealers all met here a few days ago and they passed some resolution endeavoring to obtain for tobacco the European market.

They wanted tobacco to be included in the incentive goods of the Marshall plan.

Have you any opinion about that? What could be done in that respect? It seems to me, as it is the purpose of our people to not only feed and clothe those people but to make them contended—discontent is one of the things that drives them under the influence of the Communists—and it is thought that tobacco might have an effect that might be very beneficial.

What do you think abbut that as a morale builder?

Secretary ANDERSON. From a nutritional standpoint, it does not rank high, even the eating variety, but there is a very great use for tobacco, I do think, as an incentive item.

I have stated in a report, which I filed with the President when I returned from Germany, that I felt the production of coal mines in the Ruhr could be improved if a reasonable quantity of woolen goods, tobacco, and many other types of commodities, which they now cannot buy with their money, might be added to the program over there.

Also, since this committee might be interested in it, I believe there might be a necessity for some type of trading organization to make possible the utilization of tobacco in certain other countries.

As you well know, the Spanish Government would have liked to have bought a large quantity of American tobacco. We could not handle the sale because we could not accept the terms of payment which they offered, yet I am just as convinced as I can be that with cooperation from government to government that sale would have worked out; the American tobacco which we now have lying in warehouses would have found a market in Spain, it would have been a good sale to them, and it would have been a good deal for us.

Similarly, we face a like situation with reference to Germany. We could have moved some tobacco there. I also feel that at the present time we would be very happy if we could have some sort of an arrangement to move tobacco into Great Britain at this time. The British people, with admirable determination to cut down on what they are importing, have cut us out of the tobacco market.

I cannot help but feel that what I have said about the coal mines in Germany applies perhaps to the coal mines in Britain, sir. If we could give them some special form of tolerance, to give them a chance to pay, we could send tobacco to them.

Mr. SPENCE. Well, I know you rendered very efficient service in the occupied zone of Germany. But you did not have the cooperation of the military authorities?

Secretary ANDERSON. Well, I will not criticize General Clay. I am satisfied with his decision, although I still would like the opportunity to put a small cigarette-rolling machine in the front door of one of those mines and see if I could not increase their production in 1 day.

Mr. SPENCE. How much tobacco does the Commodity Credit Corporation now own, or have under loan?

Secretary ANDERSON. I could supply that figure; I do not know offhand; it is too much.

Mr. SPENCE. It is a very large amount?

Secretary ANDERSON. It is getting bigger. It is a pretty substantial quantity. You see, we had to take that sort of action because here was a tobacco that had been grown for a market that had existed 150 years and it was logical to assume that it was going to exist for a long time in the future. The British buyers were in our market buying their tobacco. I certainly would not say to a farmer "Do not grow it" under those circumstances, so we did permit the establishment of tobacco quotas that took into consideration a reasonable quantity of export sales. Suddenly the dollar situation gets tight—Britain drops out; we cannot handle the deal with Spain; Italy cannot buy our tobacco; Germany has to quit; and so we go down the whole list, including snuff sales to areas that nobody dreamed would be affected.

We have just acquired that tobacco; that is all.

Mr. SPENCE. A lot of these people are very anxious to obtain American cigarettes; are they not?

Secretary ANDERSON. Yes. Not all just cigarettes. Some of them want cigar types of tobacco, and for some strange reason, some of them want snuff.

Mr. SPENCE. Probably some of them want chewing tobacco. Do you think the probabilities are very good that that will be incorporated as incentive goods?

Secretary ANDERSON. My experience with the House would lead me not to predict what the Congress is going to do.

Mr. SPENCE. That is always wise. How much grain does the Commodity Credit Corporation have under loan?

Secretary ANDERSON. We do not have any under loans.

Mr. SPENCE. Do you own any wheat?

Secretary ANDERSON. Do we own any wheat?

Mr. SPENCE. Yes.

Secretary ANDERSON. Yes, I would have trouble telling you exactly how much we have shipped as of today. Thus far we have procured 398,000,000 bushels. A great deal of that has been shipped. The

Commodity Credit Corporation can tell you exactly how much we have on hand. After we finish with our January program, which is the only one now scheduled, we will have somewhere in the neighborhood of 45,000,000 bushels on hand—more than enough to fulfill our January schedules.

Mr. SPENCE. You have not been required to purchase any grains under the support program?

Secretary ANDERSON. No, it has not been done to support price at any time this year.

Mr. SPENCE. That is all.

The CHAIRMAN. Dr. Smith.

Mr. SMITH. Mr. Anderson, you are here advocating the carrying out of the so-called Marshall plan, are you not?

Secretary ANDERSON. Well, I thought I was here testifying on the program that the President proposed the other day, but the Marshall plan ties into that. I do not think that at any time I have been asked to testify on the Marshall plan as such. The interim aid testimony, I understand, is quite different from the Marshall plan testimony.

Mr. SMITH. You are not advocating, then, the Marshall plan?

Secretary ANDERSON. Well, I will be glad to, Mr. Smith, but I wish that I might have an opportunity to come prepared to advocate the Marshall plan, because I did not come for that purpose. I will be glad to give my general endorsement of it, verbally now, and to come back with a statement on that later.

We have in the Department been studying the proposals sent by the countries that would be involved in the Marshall plan, and we have made a study of their agricultural needs. The things that they have requested, and while I have gone through it, and know a little about it, I am not able to testify on it at all.

Do you desire testimony on it at this time?

Mr. SMITH. I just want to know whether you are here favoring this project program entitled "the Marshall plan."

Secretary ANDERSON. No, I am here in response to a request from the chairman that I testify on the 10 points contained in the President's program.

Mr. SMITH. But the 10 points, the President gave us to understand, were they to carry out the Marshall plan?

Secretary ANDERSON. I did not so read his statement.

Mr. SMITH. You did not read his statement in that light?

Secretary ANDERSON. No, I did not.

Mr. SMITH. You say, however, that you endorse the Marshall plan?

Secretary ANDERSON. Yes, sir, I think General Marshall has done a splendid job of bringing together the hopes and aspirations of a great many people in Europe. I am not an authority on world affairs by a long measure, but I did spend a little time—and only a very little time—there last summer. I deal with representatives of foreign governments almost as regularly as some members of the State Department, because they all come in and talk to me about their food requirements and needs, and everything I have learned in the little time I spent there and in the long hours I spent visiting with the representatives of these countries, persuades me that the Marshall plan is quite essential.

Mr. SMITH. When did you come to that conclusion?

Secretary ANDERSON. Well, if General Marshall had told me he was going to propose that I would have told him I had come to that conclusion before he proposed it. We felt very strongly for a long time that something of that nature was needed—getting together with these countries, because he made his proposal sometime in June, and in May I had appeared before the International Emergency Food Council and had suggested that we should have a cereals conference in Europe in order to suggest to those countries that they needed to husband their own resources, that the amount of wheat that would be available for us in export to these countries would not be sufficient for their needs, and that they needed to go ahead themselves and husband their resources and if you read carefully the Marshall proposal, which has grown into the Marshall plan, you will find that General Marshall said that not only did we need to find out what we could do but we needed to check the part those countries themselves would take. Those are his exact words, "the part those countries themselves would take."

And that is the essence of what we were trying to do at the Paris Cereals Conference in July.

Mr. SMITH. And you came to that conclusion, then, in about January of 1947, and later on Secretary of State Marshall came to the conclusion that such a plan was needed; is that the idea?

Secretary ANDERSON. I am simply saying that we have been studying the exportation for a long time in the Department and we came to the conclusion sometime in April or May that a conference needed to be held in Europe to try to find out what the countries in Europe themselves could do to help relieve this cereals shortage and from my standpoint I was delighted when General Marshall—solely on his own I assure you—came out with the statement that he did deem that it was time to get these countries together to see what we could do for them, and what part those countries themselves could play.

Mr. SMITH. At any rate, you came to this conclusion before these three voluminous reports were gotten out?

Secretary ANDERSON. Oh, yes.

Mr. SMITH. One of the President's Council of Economic Advisers, the Harriman report, and the Krug report.

Secretary ANDERSON. That is right.

Mr. SMITH. You do not think those studies, as they call them, were necessary at all for you to make up your mind that the Marshall plan was necessary?

Secretary ANDERSON. Oh, that is quite different from what I have been talking about. Those reports are aimed at the investigation of whether this country itself is able to afford to ship the quantities of goods that might be required by these countries for their early rehabilitation. I never passed upon whether that was possible or not.

Mr. SMITH. How could you approve this so-called plan without that background?

Secretary ANDERSON. I am not quite sure whether we are talking about the same thing. I understand what the Marshall plan is, I think. As I understand it, it was a proposal made by Secretary of State George Marshall at Harvard University in June. I say to you that any person can approve that without ever going into the question of whether we have sufficient coal, petroleum, or grain to ship to Europe. Do you not subscribe to that?

Mr. SMITH. I certainly would not.

Secretary ANDERSON. Well, I want to assure you, sir, that if you will read that statement, you will find that anybody can read it and will know that he can subscribe to the desirability of knowing what those countries themselves can do without passing at all upon what the United States can do.

Mr. SMITH. Well now, Mr. Secretary, that is not exactly what Mr. Marshall brought out.

Secretary ANDERSON. I believe I have a copy here of what you said if you wish to have me read it for the record.

Mr. SMITH. Mr. Marshall proposed American aid in addition to that, did he not?

Secretary ANDERSON. I will see if I can find Mr. Marshall's statement. But I do know that his statement contains the phrase that it was necessary for us to find out not only what these countries might require, but the part those countries themselves could play, and that to me was the greatest essence of the Marshall plan. The unfortunate part of it, I think, has been that General Marshall himself did not like to have the term "Marshall plan" applied to his statement at Harvard, and in one of the speeches which I prepared to make and sent to the State Department for editing, they crossed out the words "Marshall plan" because they were trying there not to have it called a plan but they called it State Department's proposal, but as frequently happens, the people of the United States decide for themselves what they want to call things.

The press began referring to it as the Marshall plan, the radio began calling it the Marshall plan, that did not matter after a while whether General Marshall wanted it called the Marshall plan or not.

That was what it became.

The statement he made at Harvard is quite different from what the countries themselves have subsequently developed in furtherance of that program.

Mr. SMITH. The whole thing, though, is called the Marshall plan, is it not?

I think we ought to read, for the record, a news item which appeared in the New York Times last Sunday, which is copied from the Washington Post—it is a 17-page article on the so-called Marshall plan:

> WASHINGTON, November 22.—The European recovery program was born in an airplane, flying across the North Atlantic last April, the Washington Post reported tonight. Post reporter Edward T. Folliard said the decision had come to Secretary of State Marshall while flying home from the Moscow Conference of Foreign Ministers last spring. Mr. Folliard's story was printed in a special 16-page tabloid supplement published by the Post to present the origin, prospects and possible economic effects of the far-reaching recovery program.
>
> The Foreign Policy Association cooperated with the newspaper in preparing the special section.
>
> Secretary Marshall was reflecting on his conferences with the Soviet Premier Stalin, and mulling over a report to the Nation, when the idea came to him, Mr Folliard reported. It was based, he said, on conclusions by the Secretary of State that:
>
> 1. The Russians were in no hurry to see Europe recover.
> 2. The leaders and peoples of non-Soviet Europe were almost too tired and dispirited to see the deadly danger of their position.
>
> Out of this grew Secretary Marshall's June 5 commencement speech at Harvard, which set the program in motion.

That is the end of the quotation, which of course set the ball rolling.

Secretary ANDERSON. I will be very glad to read you the exact wording. I do not have it in any document. I have it in my own handwriting as I copied it and I am sure I copied it correctly. This is the essence of what has grown into this Marshall plan:

> It is already evident that before the United States Government can proceed much further in its efforts to alleviate the situation, and help start the world on its way to recovery, and there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government.

I think that states as clearly as it can that before we go much farther in our attempts to help Europe, there must be some agreement as to what they need and what they themselves will do. I heartily subscribe to that. I can subscribe to that without subscribing to anything in any other report.

Mr. SMITH. Have you read these reports?

Secretary ANDERSON. I have.

Mr. SMITH. Do you agree with them?

Secretary ANDERSON. I think that I would say that I do agree with them. I certainly agree with the Harriman report. I agree with all the food sections in the Krug report. I am not in position to pass judgment on the fuel section of the Krug report because I am not acquainted with the figures they use and I am not familiar with them.

I am willing to say that the Harriman and Krug reports, as far as food is concerned, are both admirable documents, and that I am quite willing to stand on the conclusions they draw as to food.

Mr. SMITH. Mr. Secretary, you are here advocating the reinstitution of price controls; is that right?

Secretary ANDERSON. I am here advocating the granting of authority, as reserve powers on a stand-by basis for those things; yes, sir. That does not constitute a recommendation for their reinstitution.

Mr. SMITH. And you want the Government to have the power to seize farm crops?

Secretary ANDERSON. There has not been one word of testimony by me this morning to that effect in any way, shape, form, or fashion.

Mr. SMITH. Do you agree with the President's speech on occasion of his last address to the Congress?

Secretary ANDERSON. Which one?

Mr. SMITH. I said the last one. Maybe there have been several others; I do not know. I am referring to the speech at the opening session of this Congress.

Secretary ANDERSON. Yes, I do. If you can find anything there that advocates the seizing of crops, I will be interested in that.

Mr. SMITH [reading]:

> The second part of the program to curb inflation is to secure the most efficient use of scarce goods, and otherwise channel their flow so as to relieve inflationary pressures. Grain, for example, is too badly needed to permit wasteful feeding to livestock.

Secretary ANDERSON. Does that advocate seizing of crops?

Mr. SMITH. You yourself have this morning advocated, Mr. Anderson, this very thing. Have you not?

Secretary ANDERSON. The most efficient use of feeding of grain, that is correct.

Mr. SMITH. How can you obtain authority or power to allocate the use, or to dispose of wheat and other grains, without seizing those grains?

Secretary ANDERSON. I can answer you very simply. Under our limitation order 141, which we used during the war, when we got into a very tight situation, in the spring of 1946, I limited the amount of flour that a flour mill could produce, I limited the amount of flour that they could deliver to a baker, and we limited the amount of flour that the baker could himself use.

That was a limitation on grain and we never seized one bit of the farmer's crop.

Secondly, I can give you another example.

Mr. SMITH. I am not asking you what you did do. You say you had power to control the use of this grain and yet you sit here and deny that you had the power to seize those things.

Secretary ANDERSON. No, I did not. The question was, "Do you advocate the seizure of farm crops?" and you said I had advocated, and I said there was not one word of testimony in this record to that effect, and there is not one word of it at any state to that effect at any stage of the game.

Mr. SMITH. I do not understand this thing.

Secretary ANDERSON. I understand what I have testified to.

Mr. SMITH. You do, because I do not. How can you control——

Secretary ANDERSON. I cannot blame myself for that.

Mr. SMITH. How can you control the use of the grain on the farm without seizing it? Let me give you a concrete illustration. In my district, it so happens that our corn crop is of low quality. The crop as a whole is all so short that the farmers in my locality are holding wheat to use it in connection with this poor quality corn to feed their hogs.

Secretary ANDERSON. And never by any word have I ever suggested that that is improper.

Mr. SMITH. Just one moment. That does not enter into the question. You nevertheless would have the power, which you are requesting, to enter my district, and say to the farmers, "You can't use this wheat to feed the hogs."

Secretary ANDERSON. I do not believe there is any word in my testimony that says that I want the power to say to them that they cannot feed hogs with it. What I have said is that we do not believe that the feeding of hogs to weigh past 220 pounds is an efficient use of corn, and we might say to the commission merchant, or to the railroad company, that they could not haul a hog past 220 pounds.

That is one way of doing it. We might say that a packer could not buy a hog weighing over 220 pounds.

Or we might take the very simple device that was used by this Government several years ago, namely, we took the support price off hogs over certain weights and allowed the price to drop, and that stopped the feeding of them.

We tried to say to the farmer that he must not do an uneconomical thing. And as long as he can sell his corn so it is more valuable to him than feeding to hogs past 220 pounds we do him no financial damage either and the strange thing is that every farm organization that you or I know anything about has endorsed this proposal.

The four major farm organizations have come together and said that it is a desirable thing not to feed hogs to large weights. All those are representing the farmers of your area.

The land-grant colleges of this country, without regard to the States from which they come—some of them in States presided over by Republican governors and some of them in States presided over by Democratic governors—without exception they have taken the lead in this program of trying to bring about the efficient use of grain by marketing hogs at lighter weights, and the case which I mentioned, of the University of Illinois, happens to be that of a State in which the administration is Republican but the people in that State, the land-grant colleges of that State, have followed the traditions that they have developed that there is an efficient way to feed corn to livestock. It happens to be that the figures prepared by the University of Illinois are the figures that I have most frequently used as to the reducing efficiency, the gradual declining efficiency of corn as weights go up.

Mr. SMITH. Then you believe the Government ought to have power to do all those things, to regulate?

Secretary ANDERSON. Pardon?

Mr. SMITH. You believe that the Government ought to have power to do what you call efficiently utilizing those products.

Secretary ANDERSON. I believe the Government ought to have power to help along these efforts toward grain conservation; yes, sir.

Mr. SMITH. You believe, then, in a politically planned economy, do you not?

Secretary ANDERSON. There is nothing between the two statements at all. They do not agree whatever. I do not say we believe in a politically planned economy.

Mr. SMITH. What is that but a politically planned economy?

Secretary ANDERSON. I do not care to define it that way.

Mr. SMITH. Mr. Anderson, in my area, people have raised that question: "What right have politicians to come down here and take my grain and tell me what to do?"

Secretary ANDERSON. The farm organizations of your area have not raised that question.

Mr. SMITH. Well, I want to say this——

Secretary ANDERSON. You go back to talk to the Ohio State Grange and the Ohio State Farmers Federation. They are both vigorously in favor of this program.

Mr. SMITH. Well, they do not always represent the farmers.

Secretary ANDERSON. I will add the National Association of Farmer Cooperatives, the Farmers Union, the Dairy Producers, then if they do not represent the good farmers of your district, who does?

Mr. SMITH. Well, I think I have just as much right to speak for my farmers as those people.

Secretary ANDERSON. I do not question that at all.

Mr. SMITH. And I have as much right to form my judgment as they have.

Secretary ANDERSON. I do not question that. I say those organizations all support this effort.

Mr. SMITH. As I see it, Mr. Secretary—you are the third witness we have had here—you have all come in advocating the same thing, reinstitution of price controls, the Marshall plan, and the President has said we cannot have the Marshall plan without price control——

Secretary ANDERSON. I have never seen that statement from him. Could you point to it?

Mr. SMITH. That is substantially in his speech.

The CHAIRMAN. May I call attention to this fact, that we are in this position, Mr. Anderson has an engagement out of the city at 1 o'clock, I understand, and it is about 2:15, and he told me 2:15 was the deadline today.

Would you be available sometime next week, Mr. Anderson?

Secretary ANDERSON. I will be very available Friday or Monday.

The CHAIRMAN. We have Mr. Harriman and Secretary Schwellenbach listed for Monday and Tuesday.

Secretary ANDERSON. I will be very available at such time as you may wish to have me appear.

The CHAIRMAN. I apologize to Dr. Smith for interrupting his questioning.

Secretary ANDERSON. I will be available, Mr. Chairman, as a fill-in after you finish with Secretary Harriman on Monday or after you finish with Secretary Schwellenbach, or I will come in Wednesday if you so desire.

The CHAIRMAN. Then you will be available to come back almost any day next week?

Secretary ANDERSON. I am sure I can so arrange my time that I will be.

The CHAIRMAN. If it is agreeable with the committee, we will ask Secretary Anderson to come back at some convenient time next week to continue our questioning. That will give us a little more opportunity to go over your several statements, Mr. Anderson, and the committee will stand in recess until Monday morning at 10 o'clock.

(Thereupon, the committee recessed until 10 a. m., Monday, December 1, 1947.)

ECONOMIC STABILIZATION AIDS

MONDAY, DECEMBER 1, 1947

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee convened pursuant to adjournment at 10 a. m.

Present: Mr. Jesse P. Wolcott (chairman) presiding, and Messrs. Gamble, Smith, Kunkel, Talle, McMillen, Buffett, Cole, Hull, Scott, Banta, Fletcher, Foote, Spence, Brown, Patman, Folger, Riley, Rains, Buchanan, and Boggs.

The Chairman. The committee will come to order.

We have with us this morning Mr. Harriman, Secretary of Commerce.

We will continue our study of the President's recommendations for inflation control.

Mr. Harriman, I understand you have a statement. You may proceed with your statement without interruption, if you so desire, and I take it you will be available to answer any questions the members may wish to ask you at that time.

Mr. Harriman. Mr. Chairman, I have a statement which covers my views on the proposals of the President to promote domestic economic stability and to permit implementation of our foreign policies.

Much of what I have to say today has already been covered before the Committee on the Joint Economic Report where I discussed inventory controls, price controls, and allocation.

The Chairman. Yes, Mr. Secretary; it is natural that there might be some duplication due to the very nature of our study. But this is a committee of 27 members who have not had the benefit of your testimony before the Committee on the Joint Economic Report.

STATEMENT OF W. AVERELL HARRIMAN, SECRETARY OF COMMERCE

Secretary Harriman. Mr. Chairman and members of the committee. I am glad to have the opportunity afforded by your invitation to appear before this committee to present my views on the proposals of the President to promote domestic economic stability and to permit implementation of our foreign policies.

Much of what I shall have to say today, as I said, has already been covered in my testimony before the Joint Committee on the Economic Report, where I discussed export controls, inventory controls, and allocations.

In addition, I wish to discuss today the proposals involving rationing and price and wage controls which were not included in my presentation to the joint committee.

You will recall that as early as the second quarter of 1946 the physical volume of national output was approaching the ceiling imposed by availability of manpower, basic materials and other productive resources. Output was then insufficient to satisfy the pent-up demand for goods, backed by high incomes and large accumulations of liquid assets in the hands of the public. The full impact of the excess demand, however, was limited by price controls.

The subsequent relaxation and elimination of controls was followed by a sharp increase in prices. In the 9 months from June 1946 to March 1947 the Bureau of Labor Statistics Consumers' Price Index rose 17 percent or half as much as in the previous 7 years.

March 1947 represented a peak, temporarily, and was followed by a period of hesitation in the second quarter of this year. The extraordinarily high level of export demand then was offset by a cautious attitude on the part of domestic buyers. The rate of inventory accumulation, which had been an important source of demand in the last half of 1946, fell off noticeably. The increase in construction costs had been so sharp as to produce hope or expectation of later decline, and so resulted in the postponement of some scheduled building.

When continuing upward pressures were combined with these tendencies toward retrenchment, the net effect was little aggregate change in either prices or the physical volume of business. Individual prices, of course, moved sharply in both directions.

However, the period of hesitation was brief. Beginning around midyear there was another wave of inventory buying. The upward trend of construction activity was resumed. Consumers' incomes were expanded—by wage and salary increases, by the effect of rising prices on entrepreneurial incomes, and later by redemption of terminal leave bonds—thereby giving them more money to spend for limited supply of goods.

These changes more than offset the decline in export demand which came about as foreign holdings of dollar exchange declined rapidly. The rise in prices was further stimulated by the corn crop failure, with its implications for living costs and a wage price spiral.

In the 3 months from June to September—the latest month for which figures have been published—the Consumers' Price Index rose more than 4 percent, bringing the total increase since mid-1946 to 23 percent.

A partially offsetting influence has been the Government surplus. It seems clear that inflationary pressures would be even greater than they were today if the Government cash surplus were smaller than it is.

Between the second quarter of 1946 and the fourth quarter of 1947 the privately produced gross national product—which is the market value of the goods and services produced, excluding compensation of Government employees—has increased more than one-fourth. In terms of annual rates this is almost 50 billion dollars. The bulk of the rise was due to higher prices, with only a relatively small proportion due to an increase in the physical volume of production.

I am, of course, using the over-all in speaking of that. There was more construction and more manufacturing and somewhat less agricultural, because of the poorer crops.

Over all, there was some increase in physical volume, but the bulk of the increase was in the change due to higher prices.

Increased production, necessary and desirable as it is, has proved a far from adequate solution to the problem of excess demand. Significant increases in production have been achieved in some areas and further expansion is possible. However, we must recognize that, with unemployment at about the minimum possible with the frictions inherent in a free economy, expansion of the physical volume of output is limited to the slow growth in the labor force plus any improvement in output per worker that results from the improved organization of production or from more efficient operations—as from the expansion of productive facilities. Nevertheless, increases can be achieved in major bottlenecks or key areas with beneficial results on both the aggregate and the balance of production.

In any attack on prices as they enter into the cost of living, it is also highly important to recognize the relative importance of individual commodities or commodity groups in the family budget. For this purpose, I am presenting two tables to which I should like to direct attention.

The first shows how consumers in the aggregate distributed their expenditures in the third quarter of 1947. The second shows the contribution of the major components to the rise in the Consumers' Price Index, from the prewar level and since June 1946.

Food is by far the most important element in the consumer budget. It is almost one-third of total personal consumption expenditures, and an even larger part of the Consumers' Price Index, which is designed to reflect the budgets of urban families with moderate incomes. Food accounts for almost two-thirds of the rise in the combined Consumers' Price Index since 1939, and over two-thirds of the rise since June 1946.

Clothing is the next important category. Rent would, of course, be more than the 8 percent shown if rental rates were not controlled. The remainder of the consumer budget is made up of an extremely wide variety of items, no one of which is of major importance.

In using the 1939 base period for comparative purposes, the prewar year was used without any implication that prices were in balance at that time. Food and farm prices generally were relatively low in 1939, as they had been throughout the decade of the 1930's. In terms of the parity formula, prices received by farmers in that year were 23 percent below parity. Since that time, prices received by farmers have risen more rapidly than prices paid—so that in October 1947, they were 21 percent above parity.

The foregoing summary of recent economic developments indicates the reason for our present concern about the current trend. The potentialities of the situation are clearly such that we should be in a position to act to arrest adverse developments. It is essential that consideration be given measures necessary to promote stability in the domestic economy, and to implement the foreign-aid program with a minimum effect upon domestic supply and demand.

It is apparent that positive steps are required, since we lack assurance at the present time that these ends can be achieved without definite Government action.

The agencies principally concerned with particular segments of the economy are presenting to you their detailed descriptions of the existing situation and their proposed actions. My testimony is directed toward areas of primary concern to the Department of Commerce. First, however, I wish to refer to two proposals. One of these, though not the direct responsibility of the Department, is related to its work. The other is a field in which I share a joint responsibility.

With regard to installment credit controls, it is evident that restraints used prior to last month were a factor in restricting the expansion of such credit. Relaxation under present conditions—when the supply of goods and particularly consumer durable goods, cannot be substantially expanded—adds to the upward pressure on the price level. Installment credit has increased by more than 2,000,000,000 during the past year. Another billion dollars would be added to total consumer credit simply by reversion to prewar terms, if controls remain lapsed. This amount is over and above that resulting from the basic upward trend of the amount of goods sold on consumer credit.

I share the conviction that thesee controls should be promptly reenacted.

My second proposal relates to the extension of authority to allocate transportation facilities and equipment.

The Second Decontrol Act of 1947 authorized the continuation of controls over the use of transportation equipment and facilities by rail carriers. These controls are administered by the Office of Defense Transportation, subject to my over-all review. In the first quarterly report to the Congress under the Second Decontrol Act, I stated that there is greater need now for controls over such facilities than existed at the time of the enactment of the Second Decontrol Act of 1947. I, therefore, recommend that these powers be continued.

It is appropriate to emphasize the results achieved in this instance with the aid of limited controls, through the active cooperation of the railroads with the Office of Defense Transportation. This program has increased the average load per car, reduced car detention, and accomplished the distribution of available freight cars in a manner so as to spread equitably among shippers the burdens resulting from the deficiency in freight-car equipment.

But, while this program has alleviated the freight-car shortage, it has not effected a solution. If the present voluntary program for the construction of new freight cars for use in this country has shown substantial results, it has also not fully met our hopes. Clearly, transportation occupies a central place in both our international program, and in the stimulation of the domestic output of goods and their distribution.

I shall now turn to areas of immediate and primary concern to the Department, and discuss first the export control program—what the Department has done and is now doing, and how this authority and the administration thereof should be strengthened.

Before going into the details of this problem, I want to call attention again to our previously mentioned quarterly report under the Second Decontrol Act. This report explains our organization and our method of operating export controls, the criteria for approving export licenses, and the nature of our more important export programs, such as steel, coal, petroleum, chemicals, drugs, and lumber. A copy of the report

is included in the material on export control which has been prepared for this hearing, and is in your hands.

The Second Decontrol Act, as you know, gave to the Secretary of Commerce certain broad export-control powers which enable us to specify what commodities may be exported and in what amounts, to what countries and for what purposes, and to grant or deny licenses to exporters accordingly. These powers had been exercised throughout the war in conjunction with the various war powers, such as allocation and priorities, rationing and price control. The latter powers, however, except as to a very few items, were terminated before that time by the First and Second Decontrol Acts, and by enactment of a limited Price Control Act.

In this connection, I call to your attention particularly the provisions of Public Law 475, Seventy-ninth Congress, approved June 29, 1946, to the effect that, except as permitted by the Price Control Act as then limited, no other Federal law shall be construed to authorize the establishment of maximum prices for any commodity.

I call to your attention also the stated policies of this Congress in passing the Second Decontrol Act and which were made specifically applicable to our administration of export controls.

Generally speaking, we are directed to eliminate all but the most essential commodities from export licensing controls, and as to those that remained, we were authorized to control their export from this country for two main purposes: In the first place, to limit the quantity exported in relation to our own supplies; and, secondly, to direct their flow to the countries where need is greatest and where our foreign policy interest would be best served. It was, however, no longer permissible to regulate prices on export sales.

I should also mention at this point that the Senate had originally voted to extend these controls, as we then requested, until June 30, 1948, but the House approved their renewal only until the end of January. Deliberations of the conferees extended beyond the expiration date of the original law so that it had to be renewed by joint resolution for 15 days. Finally, on July 15, agreement was reached to extend the controls only until the end of February. Meanwhile, we are required to reduce our export control staffs as a result of reductions in our appropriation requests.

Under these circumstances, we necessarily curtailed the extent and nature of our controls. Nevertheless, export controls have indirectly assisted in the control of inflation. By spreading foreign purchasing power over many kinds of goods and preventing a concentration of foreign buying on those goods which are scarcest here, export controls have helped to protect the United States domestic economy against the danger of runaway inflation as well as extreme scarcity in the most critical items which, while scarce here, are much more scarce and much higher priced abroad.

We have submitted to you detailed information as to the supply, demand, and production situation in the major categories of commodities now under individual licensing control. You will note that among the goods still subject to export restrictions are essential foods, including meat products, fats, and oils, butter, wheat, and other essential grains and preparations; fodders and feeds; seeds and fertilizers; soap; lumber and lumber products; coal; petroleum; many of the more important chemicals; steel-mill products and iron and steel

manufactures; copper, brass, lead, zinc, tin and tin manufactures; building materials and plumbing supplies; and certain types of machinery still in short supply. These are items which are in short supply in this country, and for which, at the same time, there is an even greater foreign demand than at home. Although most countries of the world are very short of dollars, and have accordingly established import and exchange controls, such controls generally are not applicable to the foregoing types of commodities. In other words, in the absence of our export controls, the export of these commodities would not otherwise be impeded and would surely be greater than at present.

There has also been included in the material furnished you a table showing the total production and exports of leading nonagricultural commodities, and such exports as a percent of total production for the years 1929, 1939, 1946, and first half 1947, and there is also another table showing apparent per capita consumption of foods.

Generally speaking, you will find that the percentages exported have been running at more than prewar, although less so, I might add, than in 1920, the comparable year after World War I. Domestic production and consumption in the aggregate have risen far more than the volume of exports. Our economy, because of its tremendous increases in production, is supporting the current rate of export with relatively few areas of strain, but I want to emphasize that in these areas the effect is substantial.

There are certain commodities which we are not now controlling because they are not in critically short supply, but for which the demand is heavy throughout the world. The prices of these commodities have been rising steadily despite the efforts of producers to limit the amounts of these commodities they allocate for export. The use of export controls further to reduce the quantity of such commodities now being exported would have the result of increasing the domestic supply and to that extent ease the pressure on prices.

Furthermore there is a tendency for inflated world prices of commodities to infiltrate into the domestic economy. Foreign purchasers are often willing to pay prices substantially above the domestic price of scarce materials. Exporters are, therefore, in position to sell them at excessive prices and hence to pay excessive prices for their supplies, thus bidding the available supplies away.

The world needs goods from the United States. If our goods are sold at inflated prices the result is a more rapid depletion of dollar exchange reserves of receiving countries. We have a direct interest in providing necessary goods to foreign buyers at fair prices. This is to our long-term foreign-trade advantage, and of our immediate hopes for foreign recovery.

I also want to point out, in connection with our foreign-policy objectives and, in particular, the accomplishment of any program of world recovery, the extent to which we have been exercising our power to channel those exports which we license. There is a chart included in the material furnished you which shows that, in July 1947, for example, more than two-thirds of the exports which were controlled moved to Europe, as compared to shipments to Europe of a little more than one-fourth of the exports of noncontrolled commodities.

The adoption of a European-recovery program would, of course, emphasize the need for directing exports in that manner. The require-

ments of such a program on the United States can thereby be fitted to the quantity of any commodity which the economy of the United States can spare, and this quantity can be directed most effectively to accomplish the objectives of the recovery program with the least harm to the economies of other countries which are dependent upon United States supplies. In order to make sure that countries participating in a recovery program make the most effective use of their dollar resources, consideration should be given to a broad extension of export controls over the principal items which are now purchased in the United States by those countries, whether in short supply or not. On this subject, the President's Committee on Foreign Aid said:

> Control over the issuance of export licenses to participating countries may be of the greatest importance. * * * Where a participating country proposes to use substantial portions of its funds to get from the United States goods not relatively important in the achievement of its promised production and monetary goals, it seems clear that the [Government] should have power to prevent this, thereby supplementing the import controls established by the participating country.

To sum up, there are two main ways in which we could strengthen our exercise of export control. In the first place, with increased funds, we could undertake a broader program of export control along the lines previously mentioned. In this connection I would like to point out that on VJ-day there were about 800 employees engaged in this work, as compared to less than 200 now. In the second place, with increased statutory authority, we could strengthen the drive against profiteering in exports, and at the same time assist in making our foreign-aid program more effective.

Going now to priorities, limitations on use, and inventory controls, in the seventh point in his message the President recommended legislative authority for—

> allocation and inventory control of scarce commodities which basically affect the cost of living or industrial production.

It is planned that any specific control powers which may be authorized over any commodity will be delegated to the Department normally having jurisdiction over the particular commodity or product. Under such an arrangement, the Department of Agriculture would handle foods, the Department of the Interior would handle fuels, and the Department of Commerce, other materials and products.

My testimony is limited to this latter area.

It is not contemplated that anything approaching a comprehensive system of controls over materials, products, and productive facilities, such as we had during the war, will be necessary to achieve the objectives indicated by the President.

Adequate authority to carry out restricted priorities, limitation on use, and inventory controls is necessary. Priority controls would permit the direction of materials for use in meeting the most urgent and critical needs of our domestic economy, in order to combat inflation and also to carry out our foreign policy.

Inventory controls and authority to limit and curtail the consumption of short-supply materials in less essential uses would conserve such materials for the most essential uses.

Before any further discussion of the necessity for new controls and the extension of existing ones, I want to briefly refer to these general types of controls now being administered by my Department.

Government controls are now exercised over a few materials. Tin and tin products, antimony, cinchona bark and quinine, nitrogenous fertilizer materials, rice and rice products, and fats and oils have remained under various kinds of emergency controls by authority of the Second Decontrol Act of 1947—Public Law 188, Eightieth Congress. This act expires February 29, 1948. Government controls over rubber are also exercised under Public Law 24, Eightieth Congress, which is now under consideration by the Armed Services Committee of the House.

For example, full emergency controls are now authorized over tin, which continues in very short supply, and these powers are exercised to a very considerable extent. Primary pig tin is fully allocated, rigorous specifications are imposed on the use of tin in many of its uses, and the use of tin for many purposes is prohibited entirely. Since the outlook for increased supply of tin to meet our full needs is not promising, these controls should be extended.

I want to emphasize, however, that I do not anticipate that under existing conditions the very broad controls exercised over tin will be necessary for other scarce commodities.

Authority also exists for the granting of priorities for export for two purposes: exports that are designed to increase the production abroad of materials critically needed in this country and exports where the Secretary of State certifies that the prompt export of material and equipment is essential to the success of the United States foreign policy.

My report on the Second Decontrol Act contains recommendations for the extension of controls on tin and other limited controls now in effect. As these recommendations are a matter of record, I shall not review or repeat them here.

Now I go on to proposals for limited new control powers.

Before describing the ways in which these powers would be used, and the benefits which might be expected from their use, I would like to state my firm conviction that these controls should be imposed only after careful consideration by the Government as to the urgency or need and their effect on business and only after full consultation with the industry, consumers, and labor groups affected.

In the Department of Commerce we have been making use of our own established committees of businessmen and some of the industry advisory committees set up during the war. These committees, composed of representatives of all segments of the industry in question, large and small, and representative in other respects, have been of great value to us in bringing to us the experience and knowledge of the industry.

Priority powers are required chiefly in order to have the legal right to direct materials to certain end uses which are determined to be critical, for meeting our own urgent needs through increasing industrial production in critical industries, to prevent break-downs in domestic production of short supply materials and products, and to combat inflation, as well as to carry out our foreign policy.

The Second Decontrol Act authorizes the use of priority powers for exports to which I have previously referred. The power to require the shipment of materials abroad has been used very sparingly, principally for tin plate—earmarked exclusively for food preservation abroad—for nitrogenous fertilizer materials, and for a few items of equipment needed abroad to expand the production of critical ma-

terials. There is no present authority to use priorities powers for similar purposes in the domestic field.

The most important place in which this power can be exercised is over steel. By the use of limited priortiy powers over steel, I believe we could direct a small proportion of steel to the most essential programs. The increased production of freight cars, so greatly needed by our domestic economy, is a case in point. Another example is that steel and iron may be made available for increased production of farm equipment so essential to maintain our own food production on high levels and to increase food supplies in other countries. Other examples might be soil pipe, nails, oil pipe, and other materials for oil production and distribution. There is an oil shortage at this present time.

It is equally important to increase the production of steel itself. Although the industry has a program for expansion of basic steel output and additional finishing capacity, these proposed new facilities are not expected to overcome the immediate short-supply situation. An immediate objective is to obtain the highest possible output from existing capacity. Shortages of scrap and suitable cooking coal are limiting factors in obtaining the highest possible producton.

I turn now to proposals for limitations on use of materials in short supply.

If materials in short supply are to be used to the best advantage, authority is needed to conserve the supply by reducing the quantities for less essential uses. This can be done by restricting the production of less essential items or by requiring the substitution of less critical materials. It can also be done by specification and simplification controls.

For example, we now limit the thickness of the tin plate used in cans to the minimum required for the particular product which will be put in the can.

It is also possible to reduce the variety of sizes and shapes of an item, thereby increasing the rate of production by standardizing the product and reducing the number of items which must be kept in stock. The kinds of control which should be used for any particular material would, of course, depend on the materials and the trade practices of the manufacturers, distributors, and users of the materials.

Any program to conserve critical materials in short supply could be undertaken only after a very careful survey and consultation with affected industries.

At the present time we do not have authority or personnel to make the kinds of investigation which would be necessary to determine whether controls should be exercised over particular materials, and, if so, what kind of controls would be most effective. We do, however, have sufficient information about steel to feel certain that substantial benefits would result from use of priorities and set-asides to channel steel to the most essential uses, and to limit its use for less essential purposes.

There are a number of other materials which we believe should be studied further to determine whether controls are appropriate. And again I want to emphasize that the use of controls would be in connection with cooperative action, as far as practical, on the part of the producing and consuming industries involved.

I turn now to inventory controls.

I also believe that authority to control inventories of scarce materials that basically affect industrial production or the cost of living would be of considerable value in the anti-inflation program. Such controls would have two effects. They would help to prevent speculative hoarding by people waiting for further price rises and would thereby tend to get more goods on the market now. They would also help to increase over-all production, by preventing situations where one manufacturer has to reduce or stop his operations because his supply of materials is too low, while another manufacturer has an unnecessary large supply of the same materials.

Turning to rationing and price controls, I have stated my reasons for urging the use of consumer-credit controls, the allocation of railroad equipment and facilities, export controls—I have not mentioned rent controls, sir, because I understand that that is not before this committee at this time—and the priority and allocation powers, in order to assist in the antiinflation program.

I do not want to give you the impression that these controls can be exercised without any inconvenience to anyone. In spite of the inconvenience, which can be reduced greatly by enlisting the cooperation of the consumer and by voluntary cooperation of industry and labor, assisted and encouraged by the Government, I am firmly convinced that these controls can make a substantial contribution to the anti-inflation program.

It would be reckless, however, if we failed to take into account the possibility that these measures alone may prove to be inadequate. Further action must be considered which would authorize consumer rationing on products in short supply which basically affect the cost of living, the imposition of maximum prices on products in short supply which basically affect the cost of living or industrial production, and the establishment of such wage ceilings as are essential to maintain the necessary price ceilings.

In stating my opinion that this authority should be granted now, I do not wish to give the impression that I would recommend starting a program of over-all Government controls of prices similar to that carried out during the war. I think that it is clear that no such program is necessary at the present time, and that it is equally clear that no such program would work.

In the first place, I believe that it is possible now to proceed on a selective basis, and to limit controls to those items which the average family needs to live, such as food, fuel, clothing, and shelter, and to those areas in industrial production where a price rise would have ramified effects on the general level of prices.

In the second place, I believe that the emphasis should be placed on cooperative action.

I believe that the appropriate agencies of the Government should analyze at once the existing price structure of those vital commodities in short supply—for the purposes I have enumerated—which basically affect the cost of living or industrial production and determine those areas in which increases in prices, both those that have already been put into effect and those which seem imminent, appear clearly to endanger the stability of the economy, and undertake, by appeals to industry and to consumers, to correct or prevent these increases.

Any such voluntary program, however, can be undermined by a thoughtless or selfish minority. I feel, therefore, that the power

to impose limited direct control of prices and wages and to institute consumer rationing on a few items should be granted now, if we are to make every effort to keep the price of vital cost-of-living commodities within the reach of the average purse and to prevent an inflationary spiral which will hurt all groups in our economy.

In recommending that authority be granted now to impose controls in limited areas, I feel that it will greatly increase the chances of success of a voluntary program. Moreover, it is essential to have this power now in the event that the voluntary program should fail and it is necessary to impose direct controls promptly. If we should wait too long, the Congress may well be faced with the hard choice between disastrous delay and a hasty, ill-considered law.

Furthermore, the administration of any program of controls is a difficult task. We cannot fail to take into account the organizational problems that are involved. These difficulties are compelling reasons for going slowly, but at the same time are compelling reasons for action now.

You may recall that a staff of considerable size was working in the price control field for 20 months before the Emergency Price Control Act of 1942 was enacted and that it was nevertheless some months before it was possible to make extensive use of the controls authorized.

Adequate advance preparation makes for fairness. I believe that it is advisable to start developing a program now rather than to risk the need of hasty action later when the only feasible course might be to put on the brakes by some type of general freeze of prices and wages and then to proceed to correct the individual inequities as rapidly as possible.

It may well be that a program of stabilizing the cost of living will have to include the equitable distribution of the available supply of certain essential items for personal consumption by a program of consumer rationing. This authority should also be granted now so that adequate preparations can be started so that if the program should become necessary it could be put into effect with the least possible delay.

The authority to set ceiling prices in fields of critical importance must include authority to limit wage increases in those industries which would require increases in ceiling prices. When any wage ceiling is contemplated, the Government should take into account substantial rises in the cost of living as well as serious inequities in the wage structure in determining whether to limit a wage increase which would require a change in the price ceiling.

I hope that it will not be necessary to use such a power to limit wages. I am confident, as the President said, if the cost of living can be brought and held in reasonable relationship to the incomes of the people, wage adjustments through collective bargaining will be consistent with increased productivity and will avoid an inflationary round of wage increases.

In making these recommendations now, I am frank to say that I do not like rationing, price and wage control, and I know that the great majority of the Congress and of the people share this feeling. I am sure, however, that the vast majority recognize that in an emergency they would want to share those things which are in short supply in a democratic fashion.

The form of rationing of the necessities of life that results from price increases gives a disproportionate share to those with higher incomes at the expense of those with lower incomes. Rationing of the necessities which are in short supply on an equitable basis and at a fair price taken under authority granted by the representatives of the people in Congress is the democratic way of dealing with an emergency.

If it turns out that the measures which have been discussed, together with the program of voluntary cooperation, are effective in stopping inflation, the cost of having been prepared will be forgotten. If, on the other hand, we fail to prepare and disaster results from our unpreparedness, we will, as the President has stated, have gambled with our national safety—and lost.

Such a gamble would not merely jeopardize the economic health of this country; its repercussions would gravely threaten the security and peace of the peoples of the world.

The CHAIRMAN. Thank you, Mr. Harriman. You have presented a very enlightening statement.

Do you agree that everything should be done to bring down the cost of living before these controls are put on—price, allocation, and inventory controls?

Secretary HARRIMAN. I think you have to put the controls on, sir, and work cooperatively and simultaneously—work to get full cooperation. The President has inaugurated a food-conservation program which is off to a good start. It will take some time, however, before its full effects will be felt. It is impossible, in terms of dealing with some of the cooperative action that I speak of, with industry, not to have at least the reserve powers which I described in order to make effective, in many cases, the desires of the majority of an industry, because it is necessary, in many cases, to get all of the members of industry to conform to the program, as otherwise those who wish to work cooperatively are unable to do so.

In addition, the inhibitions of our antitrust laws frequently make it impossible for industry to sit down and discuss production and distribution questions without jeopardizing themselves and placing themselves in the position of possibly being accused of violation of our antitrust laws.

The railroads constitute a very good case in point, and it is an industry that I know better than many others. It is necessary for the Government to give directions to the railroads, even though in carrying out the programs the railroads, through voluntary action, carry them out. Under the law a railroad cannot discriminate between shippers, and they need the authority of the Government in order to put into effect these programs.

The CHAIRMAN. Would you recommend any change in the Antitrust Act which would authorize the Government to sit down with industry and agree to a voluntary program?

Secretary HARRIMAN. I would suggest, sir, that when legislation is drawn up there be included similar action to that taken in connection with these powers during the war. I believe it was section 12—it was the Small Business Mobilization Act, section 12. I think we should have powers similar to those granted at that time. In other words, if industry acts in accordance with the Government's direction, they would not be liable for infractions of the Antitrust Act. And, of

course, in all cases they would have to have authority to issue a final order, if that were desirable.

The CHAIRMAN. When we place price controls on commodities—industry-wide—when we place a maximum price on any commodity, industry-wide, and that price, from our past experience, becomes not only the maximum price but also the floor price as well, that does, in effect, constitute an agreement among the different units of the industry with respect to the price of that commodity; does it not?

Secretary HARRIMAN. Of course, it would not be a floor if there is a surplus of production.

The CHAIRMAN. Prices could not fluctuate in competition except under that ceiling. That is right; is it not?

Secretary HARRIMAN. If a commodity or product is in short supply, that ceiling price would be a floor price. If there was an overproduction in the industry, in excess of the demand, then you wouldn't need a price ceiling. The law of supply and demand would take care of that.

The CHAIRMAN. Who, under your program, is to decide the essentiality of a commodity?

Secretary HARRIMAN. If the Department were authorized to carry on this work, we would, of course, have to set up a special section. I would try to get the most competent businessmen to come down—men who had had Government experience—and we would hold public hearings, except as specifically authorized by the law—well, in the first place, we would call down the industry, both producers and consumers of the products and discuss with them the situation to see what would be possible under voluntary action.

My experience is that, by and large, industry is ready to cooperate. They are as concerned as anybody in the country over the price-wage spiral and the general inflation, and it is my belief that we could work out programs which would go a long way toward bettering the situation. But it is necessary to have these powers in order to bring in line the minority who might well be unwilling to cooperate.

When it comes to the actual setting of price ceilings we certainly should have public hearings. Of course, Mr. Chairman, I am speaking of those items which relate to the Department of Commerce. I am not speaking with relation to the food items or fuel items, and I am trying to describe what the Department of Commerce would do in connection with these powers.

The CHAIRMAN. It is going to be rather difficult for us to set up one standard for the Department of Commerce and another for the Department of Agriculture and another for the Department of the Interior.

We are confronted with this situation: If we pass legislation, we must give these powers in accordance with certain standards which will apply as well to food as to steel and other commodities. What I am trying to get at are standards which you think would be required for your guidance to do this job. Up to the present time, before all the committees, we have not had any specific recommendations with respect to standards; and the charge has been made, as a consequence, that what you are asking for is general over-all power to use as you see fit, without any standards set up by the Congress.

If that is not the case, what standards should the Congress provide in this field of prices, allocations, and priorities for the protection of the general public?

Secretary HARRIMAN. Mr. Chairman, I believe that the Congress should set standards which would be in the public interest, and of course we would consider a need, in the national interest, for the controls being exercised in the areas which would be comparable.

The CHAIRMAN. How do we determine those areas—by the mere statement in the law that the powers should not be exercised unless the goods are in short supply?

Secretary HARRIMAN. I believe that the Congress can set standards. I think one has to recognize that within the interpretation of those standards administrative discretion would be used. One also has the court action, in the enforcement of the decisions that are made, as to their applicability under the standards set by the Congress, which would be a controlling factor, sir.

The CHAIRMAN. Is it not quite doubtful that, if we did not set standards, the law would be unconstitutional, to begin with? We are at a loss to know, from the testimony given up to the present time, what standards we should provide for the protection of the general public and our economy, which are two things of prime importance.

As I understand it, you have not suggested any language.

Secretary HARRIMAN. No; but I will be very glad to, sir.

I did not want to propose language to this committee unless I was asked to do so, but I will be very glad to submit language.

The CHAIRMAN. I think it would be most helpful, if for no other reason than for an explanation of your testimony that you would not expect to use these controls except over commodities which appear to be in short supply.

I assume that the power would be given to you in the field in which you operate to determine what commodities are in short supply.

Secretary HARRIMAN. I would suggest, sir, that the powers be given to the President; but I can say that it is the present intention to allocate them to the Department most interested, with certain coordination through a Cabinet committee and a small staff working with the President's Office.

The CHAIRMAN. Do you think that price controls and rationing controls and allocation controls and priority controls are so interrelated that they must be all put into effect at the same time?

Secretary HARRIMAN. I think the powers should be granted now. They would be put into effect, I would believe, only on varying commodities and depending upon the situations in those commodities.

The CHAIRMAN. With respect to any given commodity, what would you put it on first?

Secretary HARRIMAN. Well, the food area is the biggest area. The commodity which is giving the greatest difficulty today is meat. As Secretary Anderson has testified, there is already a shortage of meat in relation to consumer incomes, and that has led to the beginning of this voluntary drive.

He has testified that next year there will be about 10 pounds per capita less meat than this year, although he pointed out that it would still be, on a per capita basis, more than last year. If the consumer drive does not curtail consumption successfully there will be bidding

up of meat, particularly next spring, when there will be a seasonal shortage, and it may well be that meat prices would set off another inflationary spiral—and that would be a very serious situation.

I would think that it would be well to prepare for, and to analyze, the methods by which it could be done at once; that is, institute meat rationing at fair prices.

In the industrial field may I suggest that the price area is the more important. If the powers were granted promptly we would go after those areas where there are great inequalities now—such as the gray market in steel and the gray market in newsprint—and ask the cooperation of the producing industries, who do not like it any more than anyone else, so that we would attempt to stamp out this practice by the use of cooperative action, allocations, and price ceilings. That is, as you know, sir, an area where there is—although it is a small percentage, perhaps, of steel—a certain number of consumers who are paying twice or more the price of steel. The export price is also working against the interests of this country, and there is profiteering in exports.

Those two areas are areas which we would go after at once, and I think we would get the full cooperation of the producing industries.

The CHAIRMAN. If we gave you the power, generally and specifically, to control the price and allocation of steel, will you tell us just briefly, if you can, what machinery you would set up? What would you do right away?

Secretary HARRIMAN. The first thing we would do would be to call down the steel industry, get information through various channels as to this gray market in steel, and see what methods could be used. Today it is not illegal for a man to acquire steel and to resell it at two or two and one-half times what he paid for it. It goes, frequently, through varying handlers.

We would see how that steel gets out of the normal channels, and we would see what methods could be used, through the use of allocations and price ceilings, to stamp out that practice, which is causing hardships to many manufacturers, and, in certain instances, to consumers.

The CHAIRMAN. Have you had any conferences up to the present time with the steel industry?

Secretary HARRIMAN. We have had conferences with the steel industry, and I know that the steel-producing industry would like to do everything they can to stamp out the gray market. But there is no legal method to do it.

The CHAIRMAN. What program, if any, have you agreed upon with the steel industry?

Secretary HARRIMAN. We have not agreed upon any program with the steel industry. Our discussions with the steel industry have related, so far, to what we could do to help them bring their production up to as close to 100 percent of capacity as possible.

The CHAIRMAN. You have not had any conferences with them, then, in the field of allocations or priorities or prices?

Secretary HARRIMAN. No, sir. The steel industry, like all industries, rather shies away from this idea of governmental authority.

The CHAIRMAN. That is one of the points I am trying to bring out—the antipathy of all industries to controls of any kind by Government. Do you expect to get voluntary cooperation from industry with respect to prices and allocations?

Secretary HARRIMAN. That would be my belief, providing we handled it in a tactful and common-sense manner. I would not say the entire industry, but in the textile industry some men I know have told me, prior to this discussion, that they would welcome the calling in of the textile industry to see what could be done to use the productive facilities of the industry to take care of the most urgent demands; and they have expressed the belief that if there was cooperative action they could tend to supply the needs better, which would, in turn, have an effect upon excessive prices in certain areas.

The CHAIRMAN. Let us try to apply that to a specific item. Let us say that in your agreements with the textile people you decided that at the present time there is an abundance of sheeting but there is a shortage of women's house dresses. Let us say that they agree to increase the production of women's house dresses so as to bring them into line, pricewise, with sheeting.

Secretary HARRIMAN. Taken as a hypothetical case?

The CHAIRMAN. Yes. How could you do that without affecting the price of sheeting?

Secretary HARRIMAN. This is purely hypothetical, because we have had no such discussions, but there are indications in the textile field that there are some types of goods that are in greater supply than the demand for them and others that are in short supply, and I believe that, if there was a discussion of the requirements and a discussion of the manner in which productive facilities were to be used, through cooperative action, with powers of government to support that cooperative action, some benefit could be derived.

The textile industry is pretty close to meeting the demand, and it may well come up to the demand within the course of the next year. But such action would stimulate that industry very definitely, in my opinion, and there would be specific benefits to be derived from it.

The CHAIRMAN. What examples have you in mind of selected controls that would not affect the price of the commodities not under control in the same industry?

Secretary HARRIMAN. As I said, sir, the only basic material upon which we have had the opportunity to make at least a general study is steel. And I have attempted to indicate that if this is the entire steel production we would attempt to reduce the use of steel in the nonessential areas, particularly where substitute materials can be used or where the use of steel could be postponed, and, on the other side, perhaps a smaller amount directed to the most essential uses, in the directions that I have mentioned, leaving the central area, the big majority of it, to be handled by the governmental distribution channels.

The powers of allocation and priorities would be used in that connection. In many areas it could be done through the cooperation of industry, but the allocation powers, in my opinion, are necessary. And certainly the limitation orders are necessary.

I have mentioned that we are already in consultation with those who use tin plate, and we do believe that we can save on the use of tin by the powers and limitation orders we now have. And, incidentally, there will be a saving of steel.

On the question of prices, the first ones to get at are those where there are excessive prices, which are in the grey market area of steel

and in the steel going to export. I cannot give you details of other industries because we have not had the opportunity to bring the industry representatives in; nor have we had an opportunity to make the studies which would be necessary to give you specific cases.

The CHAIRMAN. Then, let us see if we can get more specific with respect to steel. I think we all agree that we should have more railroad equipment. What would you do with respect to steel, if you were given the power today to place a maximum price on it, the power to allocate it, and the power to invoke priorities?

Secretary HARRIMAN. I believe you should first use the priority and limitation orders. I mentioned the freight-car situation, and the question of agricultural machinery, and what might be done there, and the question of petroleum machinery and distribution.

As to the limitation orders, I can give you more detail as to what developed from our studies in the use of tin plate. We have called in representatives of the industries and, as a result of those studies, we believe we can issue limitation orders which will effect a saving of tin plate.

Also, for example, beer cans. During the war, beer was sold in the bottles and there appear to be ample bottles to take care of requirements. We have discussed this matter with the beer people and they have indicated their readiness to cooperate, but they wanted us to know, and we have attempted to understand, what the detailed requirements are for beer cans, and we expect to be able to issue an order which will limit the use of beer cans and save tin, and there will be an attendant saving of steel.

But may I say I do not want to emphasize the beer question alone, because we are going into other production, such as coffee, food for pets—which is a substantial item—the use of tin cans for oil containers, and the standardization and limitation of the number of sizes of cans in food production.

The CHAIRMAN. Would you expect to take any steel from the appliance industry or the automotive industry?

Secretary HARRIMAN. No; it would not be our intention, Mr. Chairman. It would not be our present intention to do so, but we would want to analyze the end uses of steel and attempt to get cooperative action in the substitutions of materials, and if investigation showed, as it has in connection with tin plate, that steel is used in areas where substitute materials can be used or construction work which could be deferred, it might well be proved desirable to issue limitation orders.

Taking, for example, the construction field: It is certainly essential to get the maximum amount of low-cost housing for veterans and others in lower incomes, whereas in other areas of commercial construction, higher-cost housing, it might well prove to be desirable to issue some limitation orders so as to conserve steel for more essential uses.

But I cannot give you specific cases until we have brought the industries affected down and analyzed the situation with them. And, as I say, so far in all of our dealings with industry we have found a real disposition to cooperate and a recognition of the problems that exist.

The CHAIRMAN. Mr. Secretary, we find it rather difficult to legislate specifically with respect to these powers because of the uncertainty as

to what the powers should be. We figured we have to write some standards into the law otherwise it might be found to be unconstitutional. What standards should we write in, in accordance with your general purposes here, which might prevent a recurrence of the experiences which we had with the operation of the Office of Price Administration, which I think we all agree had a deterring influence on production. The thing which is worrying us more than anything else with respect to this program is that, in keeping with the general idea that we have got to get production, more production, and then even more production, to solve our price and economic ills, we might be taking a gamble on the other side of the picture. In that if we legislate these powers, the mere existence of the powers might have a deterring influence on production.

The uncertainty in business is what deters production. We all know that.

Let us take the automotive industry as an example. If the automotive industry thought that at some future time the powers which you have been given to allocate steel would affect their production in some manner, do you not think that would have a serious effect upon automotive production and planning within the industry itself?

Secretary HARRIMAN. Well, the shortage of steel is already having an effect on the automotive industry production, as you know. It would not be our intention to attempt to decide what percentage of steel production should go to automobiles or to refrigerators or to any of the basic uses.

The CHAIRMAN. You say it is not your present intention to do that, but how do we know that at some future time you will not exercise the powers given to you in those fields?

Secretary HARRIMAN. Well, I will attempt to submit——

The CHAIRMAN. In other words, the problem we have is to give you controls which we can assure industry are going to be used selectively and not generally. How can we do that under law?

Secretary HARRIMAN. I will attempt, sir, to submit language which will go in that direction. I think it must be recognized that the legal interpretation of that is always a deterrent to the administrator, aside from which any administrator would have the benefit of the difficulties which ensued before, and it would be, in my judgment, utterly impossible, in a peacetime economy, to allocate steel as was done during the war, to various uses, which, of course, created the difficulties.

I do believe, however, that if limitation orders on the use of steel can reduce the demand, and then also the direction of steel can increase production in those areas which are most critical in the national interest, that it would still leave possibly an even larger amount of steel in the areas which are now suffering from a shortage of steel to cover our general needs.

The CHAIRMAN. How much do you think the buying for foreign account influences domestic prices?

Secretary HARRIMAN. As I have stated in my statement, on the overall basis it has a certain inflationary effect. On specific areas it, of course, has a very definite and important effect. With respect to the

price of wheat, it has an important effect. We are exporting now something like 10 percent of our steel production and that does contribute to the shortage in steel and has a particular bearing on the gray market in steel. I do not know that it affects the basic list price of steel, but I do know that it has an effect on the gray market in steel.

The general impact on the economy, any buying that is done adds to the inflationary pressures. It is my belief that the major difficulty with such products as meat, where there is no large export volume, that that problem is a domestic problem, but by the same token, the fact that we are exporting grain for human consumption does, to some extent, reduce the amount of grain available. Although I must say that it is my opinion that the basic inflationary pressures come from our domestic situation, yet foreign exports do have a material effect in adding to those inflationary pressures.

The CHAIRMAN. We have not begun our rehabilitation program in western Europe yet, our long range rehabilitation program.

Secretary HARRIMAN. The estimates that were made by this public committee, on which I served as chairman, are to the effect that the total exports, if the European recovery program were adopted, would not add to our total exports, and in fact would be less than the peak reached this year.

In addition to which, on finished steel items, there would be no more exported than is now currently being exported, so that it is a continuation——

The CHAIRMAN. I would like to understand that. Do you mean that if we provide credits under the so-called Marshall plan that we might not expect an increase in the export of steel, for example?

Secretary HARRIMAN. Yes; exports of finished steel.

The CHAIRMAN. How about steel ingots?

Secretary HARRIMAN. The committee recommended that exports of ingots or semifinished steel be limited to the maximum feasible, and that no scrap be exported. But I wanted to explain, sir, that the over-all impact on our economy will be no greater, as it appears that if the European recovery program were adopted, our total exports for next year would not be as great as the high point of this year, and would not be any greater, and possibly less, than the present rate of exports for the third and fourth quarters of this year.

The CHAIRMAN. According to your reports, the monthly average rate of export of steel ingots is greater than 13,000,000 a month as contrasted with 1939, where it ran $2,100,000 per month. I am making allowances, of course, for the depression in our currency. That would seem to be a very unusual increase in our exports of steel. Do you not think we could save a little of that steel by exercising export controls to a point where we might build a few more freight cars?

Secretary HARRIMAN. We are controlling exports of steel. The annual rate is about as you have indicated. Those programs are reviewed with great care, and, as I say, about 10 percent of our production is now going to export.

The CHAIRMAN. If we gave you export controls, having in mind that we were giving them to you for the purpose of balancing foreign

demand against domestic stability, what would you do with respect to steel ingots, say?

Secretary HARRIMAN. We now have all steel products under export control.

The CHAIRMAN. Is not our major problem the amount of steel we are exporting?

Secretary HARRIMAN. Just a moment. I made a mistake there. Only about half of the different steel products are now under export control—those that are in short supply.

There are certain types of steel that are not under pressure and those we have not attempted to place under export control. We have under control those steel products which are in short supply.

The CHAIRMAN. Under the 1946 figures given here, which appear to be only about half in dollar value of the 1947 export figure, we exported, according to the figures I have, $611,211,069, iron ore concentrates, steel-mill products, steel mine manufactures, and alloys. That is in 1946.

Now, the export of steel ingots has risen from 61513.1 millions of dollars in 1946–47—that is a monthly average—steel plates and sheets has risen from 7.7 in 1946 to 13; tinplate not quite as much, 3.5 to 6.4; and our export of manufactured, processed, and fabricated steel has risen from 13 to 21.1. On the basis of $611,000,000 of exports for 1946, the dollar value of our exports in 1947 for steel in all forms will run something over a billion dollars, will it not?

Secretary HARRIMAN. I can give you the tonnage figures, if you wish, in those years.

In 1939 this country produced about 35,000,000 tons of rolled steel products. In that year there were about 2½ million tons exported, or 7.2 percent.

In the first half of this year our annual production had gone up from 35,000,000 to 62,340,000 tons, and it was exported at the rate of 6½ million tons, or about 10.5 percent.

Percentagewise, it has gone up from 7.2 to 10.5 percent, and in tonnage it has gone up from 2½ million tons to 6½ million tons.

Total United States domestic exports of agricultural machinery and equipment and iron and steel pipe first, second, and third quarters 1947

	1947			
	First quarter	Second quarter	Third quarter	January–September
Agricultural machinery and equipment (in thousands of dollars)	63,144	87,666	80,871	231,681
Total iron and steel pipe (in thousands of net tons)	152.2	151.1	133.0	436.3
Casing and oil-line pipe, seamless	56.5	64.6	50.7	171.8
Casing and oil-line pipe, welded	25.8	19.4	14.0	59.2
Black pipe, seamless	4.4	3.8	5.0	13.2
Black pipe, welded	26.1	20.8	16.8	63.7
Wrought-iron pipe, welded	6.3	1.8	2.6	10.7
Galvanized pipe, welded	16.7	19.2	14.4	50.3
Wrought iron galvanized pipe, welded	.9	1.8	1.5	4.2
Iron and steel pipe, n. e. s.	15.5	19.7	28.0	63.2

Source: Department of Commerce official statistics.

Exports of total steel-mill products, by principal destination

[In thousands of net tons]

Destination	1938	1939	1946	1947			
				First quarter	Second quarter	Third quarter	January–September
Total world	1,799.9	2,455.4	4,622.2	1,514.3	1,693.7	1,523.8	4,731.8
North and Central America	436.1	654.5	1,222.9	385.5	435.6	427.1	1,248.2
Canada	290.5	420.1	728.4	232.0	252.5	242.3	726.8
Guatemala	7.6	10.4	15.0	3.8	2.9	4.1	10.8
Cuba	53.3	71.7	110.0	34.1	49.7	44.3	128.1
Mexico	42.8	85.8	291.6	90.8	95.4	99.8	286.0
Curacao (Netherlands West Indies)	12.8	13.5	5.2	2.4	3.5	2.4	8.3
Panama, Republic of	6.2	9.0	7.7	3.1	5.2	5.3	13.6
Costa Rica	5.1	18.5	15.7	4.0	3.7	6.8	14.5
Trinidad and Tobago	3.7	6.8	3.9	1.9	2.5	2.5	6.9
Dominican Republic	3.6	5.7	17.5	5.5	9.9	10.8	26.2
Jamaica	3.3	1.3	1.1	.7	1.2	.5	2.4
Honduras	2.6	2.9	11.4	3.7	4.2	3.1	11.0
Nicaragua	1.5	2.9	4.1	1.1	1.5	1.2	3.8
Salvador	1.5	2.5	7.4	1.3	1.6	2.6	5.5
Haiti	.9	2.7	3.1	.5	1.2	.3	2.0
South America	327.6	510.1	1,231.3	464.2	467.2	391.2	1,322.6
Brazil	82.3	163.9	399.4	120.2	106.1	84.2	310.5
Venezuela	71.0	93.1	181.5	63.5	100.0	73.8	237.3
Colombia	56.7	78.2	118.4	40.4	35.4	23.7	99.5
Chile	52.6	48.4	91.9	34.4	35.0	27.2	96.6
Argentina	29.6	69.4	279.7	146.5	145.5	147.0	439.0
Peru	23.1	33.3	60.9	20.9	16.9	11.1	48.9
Uruguay	6.1	10.9	67.4	23.1	16.9	13.4	53.4
Ecuador	2.9	8.2	9.3	7.3	4.6	2.1	14.0
Bolivia	2.7	3.5	15.3	6.1	4.1	6.8	17.0
Paraguay	.1	.8	7.2	1.2	2.3	1.2	4.7
Europe	384.1	504.6	1,602.4	465.1	561.9	459.9	1,486.9
Western	282.9	446.9	1,460.4	439.9	534.8	435.7	1,410.4
Netherlands	94.3	129.5	142.3	54.7	49.4	61.0	165.1
United Kingdom	92.7	109.8	277.1	72.9	65.6	27.2	165.7
Sweden	31.0	90.8	235.4	64.2	116.8	65.1	246.1
Turkey	19.0	5.7	39.9	7.3	25.3	9.7	42.3
Norway	13.3	40.0	60.5	24.8	28.3	24.9	78.0
France	8.9	9.6	363.0	135.6	130.7	124.2	390.5
Greece	7.5	10.6	14.8	2.2	3.3	1.4	6.9
Belgium and Luxembourg	4.6	12.9	25.3	5.7	7.9	9.4	23.0
Portugal	3.8	9.9	57.9	10.9	8.9	15.8	35.6
Eire	3.2	3.3	2.7	1.2	2.5	3.8	7.5
Italy	2.6	15.1	147.0	44.6	69.5	66.7	180.8
Switzerland	.9	7.4	56.6	10.9	12.3	13.4	36.6
Denmark	.1	1.3	33.4	3.7	12.5	11.2	27.4
Austria							
Iceland		.4	3.8	.4	1.2	.9	2.5
Germany	.5						
Other	101.2	57.7	141.9	25.2	27.1	24.1	76.4
U. S. S. R.	72.0	31.3	95.3	21.2	14.2	5.9	41.3
Spain	12.6	3.0	3.6	1.7	2.4	6.5	10.6
Rumania	7.6	6.9				.6	.6
Poland and Danzig	4.8	.2	.7	.4	.1		.5
Finland	3.7	15.7	10.1	1.3	9.3	10.7	21.3
Czechoslovakia	.1	.1	1.9	.2	.1		.3
Estonia		.1					
Lithuania							
Bulgaria							
Albania			1.5		.4		.4
Latvia							
Hungary							
Yugoslavia			28.4	.2	.3		.5

Reports of total steel-mill products, by principal destination—Continued

[In thousands of net tons]

Destination	1938	1939	1946	1947			
				First quarter	Second quarter	Third quarter	January-September
Asia	493.8	585.0	273.5	101.4	136.6	139.9	477.9
Japan	179.7	208.0				(1)	(1)
Philippines, Republic of	101.3	133.8	38.2	16.3	23.3	29.1	68.7
Kwantung	98.9	55.9		.2			.2
Hong Kong	41.1	11.6	5.5	8.6	14.9	8.6	32.1
China	20.9	54.0	179.4	48.3	56.1	53.2	157.6
Netherlands Indies	20.0	58.7	3.8	5.6	8.4	5.3	19.3
India and dependencies	14.2	21.4	2.7	2.1	5.2	8.4	15.8
British Malaya	12.2	25.5	1.8	2.4	4.9	6.6	13.9
Saudi Arabia	3.1	7.8	19.1	13.7	18.1	24.0	55.8
Iran	1.3	2.2	4.6	.5	.5	.2	1.2
Ceylon	.4	2.7			.1	.7	.8
Palestine and Trans-Jordan	.1	2.7	17.0	2.1	3.8	2.3	8.2
Behrein, State of			.9	1.0	.7	.5	2.2
Africa	52.1	73.4	128.1	32.8	37.2	48.5	118.5
Union of South Africa	41.9	38.4	67.4	21.2	26.4	37.2	84.8
Egypt	7.3	21.4	12.2	4.0	4.9	4.1	13.0
British East Africa	1.7	2.8	2.5	.2	.2	.3	.7
Algeria	1.0		28.6	4.2	2.5	2.2	8.9
Belgian Congo		.7	17.3	3.0	3.0	4.4	10.4
Australia and Oceania	38.3	14.5	73.5	33.3	27.2	17.8	78.3
Australia	33.5	10.6	58.7	26.6	24.3	13.7	64.6
New Zealand	4.7	3.8	14.8	6.7	2.8	4.1	13.6
All other	67.5	113.0	90.2	31.6	27.7	38.9	98.2

[1] Less than 50 tons.

Domestically, in 1939, we used 32.4 million tons, and in the first half of this year domestically we used it at the rate of 55,700,000 tons.

The CHAIRMAN. How much steel would you require to get the industry to a full production of freight cars, gondolas, tank cars, and so forth?

Secretary HARRIMAN. I do not know how anyone can fully estimate, if there was all the steel that we wanted; it is very hard to estimate what the over-all consumption of steel would be and how long it would last.

There are demands in excess of supply—we know that—both domestically and for export as well.

The CHAIRMAN. That is the point I am bringing out. In keeping with your statement on page 3, you say, "Increased production, necessary and desirable as it is, has proved a far from adequate solution to the problem of excess demand." With that control on the export of steel, and if we exported, according to your figures there, certain types of steel, the exports rose from 7.2 percent to 10.5 percent.

Secretary HARRIMAN. That is correct.

The CHAIRMAN. What I am trying to get at is this: How does that export of steel affect this basic industry?

Secretary HARRIMAN. Any steel we export probably in some way limits the fulfillment of some demand at home. It is a question of the alternative that we have attempted to weigh. In many areas we have to export in order to be able to get in return some of the things we need to keep our enoconmy going.

In addition to that, we have our foreign policy in relation to different areas of the world, and there is a tremendous steel shortage. Europe, as you know, is producing substantially less than it did before the war.

The CHAIRMAN. We all agree to that. But this should be our objective, as I see it: To meet as much of the foreign demand as we can and at the same time stabilize our own economy. Do you not agree that that should be our objective?

Secretary HARRIMAN. I think the relative national interest in the use of steel at home and in the use of steel abroad must be weighed and kept in balance. We know that during the war there was no such thing as absolute priority, and certainly there are many domestic users of steel who are not as essential to our national interest as the use to which that steel would be put abroad.

One of the reasons for requesting this authority is to attempt to restrict the less essential uses at home in order to have more for the more essential uses at home and in order to fulfill our foreign policy abroad.

The CHAIRMAN. Let us agree that you should have the authority to divert the steel which is going into the manufacture of beer cans, for example, and animal-food cans and coffee cans. How can we give you that authority without giving you an over-all authority to virtually manage that particular segment of our economy?

Secretary HARRIMAN. Well, the authority for which we ask is limitation orders on the less essential uses for steel.

The CHAIRMAN. That is the point. How can we enact legislation limiting those orders, or giving you the authority to issue them?

Secretary HARRIMAN. We would have to prove that that was a less essential use, and we would have to get a fair degree of cooperation from the industry. Otherwise our orders would not stick.

The CHAIRMAN. We have had some very unfortunate experiences with this, Mr. Secretary. In the Price Control Act we provided very specifically, in as plain language as we could define, that the exercise of price control would not be used in any way to affect trade practices. Yet the major complaints against the Office of Price Administration were that these powers were being used to affect trade practices. With that in mind, as an example of our problem, what would you suggest by way of language which would limit this authority to what you think is necessary without giving you carte blanche authority to manage our economy?

Secretary HARRIMAN. May I explain that we would not be asking for authority to allocate all steel. We would be asked for the authority to issue limitation orders on the use of steel for less essential purposes, and, at the other end, to give priority to those few areas where the national interest was directly involved.

The CHAIRMAN. At the same time you ask authority to put maximum prices on that steel. How can you allocate steel to certain segments of the industry and price that steel without it having a natural effect, as I see it, on steel production in all fields?

Secretary HARRIMAN. You have got the list prices on steel products under the current market. I have indicated that our program would be to get at the gray market where the steel is selling at substantially above those list prices. It would not be necessary, in connection with the allocation of steel, to affect the list prices unless there was proof that the price of steel had a very definite effect—was out of line with

other prices and had a very definite effect on the inflationary situation itself. We would have to prove that it was out of line with general trend of prices.

The CHAIRMAN. In pricing this steel, would you take into consideration that the industry was perhaps making a good profit on steel products, so that they could afford to absorb any loss that they might take incident to your reducing the price on other products?

Secretary HARRIMAN. As I have said, the area which is out of line, and which is definitely inflationary, is this gray market of steel, where certain products are selling at twice the list price. In the general question of the steel price, we would have to set standards if we were to engage in any price studies on steel or any action on steel, which as I say, would not be contemplated at the present time, but only if it became an important inflationary situation.

At the present time it is the gray market, sir, which is the abusive area.

The CHAIRMAN. The reason I bring this up is that I recall that when we gave the administration the authority to continue the allocation and pricing of building materials, the administration decided that the soil-pipe and brick industries were making as much as they should on the manufacture of brick, and, to encourage the manufacture of clay soil pipe, they increased the price. Consequently, we found ourselves without hardly a brick with which to build homes. But we found plenty of clay soil pipe. How can we avoid that in putting these controls on steel? If you give encouragement to the manufacture of one kind of steel, what assurance do you have that that is not going to affect the production of steel?

Secretary HARRIMAN. As I said, Mr. Chairman, there is not the present intention——

The CHAIRMAN. That was not done intentionally. It was done in consequence of the administration of the law. Surely I do not charge that Wilson Wyatt or anybody else intended to stop the production of bricks when he gave encouragement to the production of clay soil pipe. How can you avoid that?

Secretary HARRIMAN. Mr. Chairman, that law related to the control of all prices, and the proposed legislation would be limited authority to deal with those areas which are causing special inflationary pressures.

The CHAIRMAN. If we gave you all the authority which you might need, generally or specifically, to control exports to a point where you could stop them altogether, what effect would your administration of those controls have upon the domestic price level?

Secretary HARRIMAN. Mr. Chairman, we now have the complete authority over exports. We do not have the funds or staff to exercise the authority over more than a limited number of items. But our general policy on steel would probably be much the same as has been indicated by performance in the past. But we would be able to get into the control of other areas where there is short supply at home, and where there are special requirements in certain countries which are needed for world recovery, and where we could direct those products to greater advantage.

But it would not be the policy, sir, to shut off exports, because it is the belief of the administration that it is in the national interest to allow limited exports.

The CHAIRMAN. I am exaggerating the situation, of course, to bring out the point I wish to make. But, having in mind the effect which exports have upon demand and prices at home, might not a flexible export control program—as I stated, balancing foreign demand against stability at home—solve the problem, at least temporarily?

Secretary HARRIMAN. We already have that power, except that it should be broadened. It would not change the situation with relation to the commodities that we are now controlling.

The CHAIRMAN. The President had the authority to control consumer credit up to November 1. But, as you say in your statement, the volume increased by something over $2,000,000,000 before the controls came off. Now, it is not a legislative matter. That was not a legislative matter. That was an administrative matter. And any increase in the volume of credit controls was an administrative deficiency and not a legislative deficiency.

So we, of course, in the Congress cannot do very much about the end use of the controls which you have with which to stabilize our economy. It seems to me, that, if you had these controls, you could control enough of the export of steel to compel the diversion of at least some of it to the essential requirements here at home. As I understand it, we need boxcars, tank cars, and gondolas for the purpose of getting food, and so forth, to the various shipping points. It is very essential. It seems to me that that is just about as essential as anything. If it is essential that we put into effect an emergency program to feed the people of western Europe, and to keep them warm this winter, it seems to me that the same reasoning would justify the exercise of export controls over steel to get enough railroad equipment to ship the food to the seaports.

Secretary HARRIMAN. I can only say two things: One, that it has been the policy in the administration of this act to permit the export of the amount of steel which we have been exporting, because we believed it was in the national interest to do so. We have no powers now to direct the use of steel within this country, and there would be no assurance, even if we did reduce the export of steel, which is not presently contemplated in a very large amount, although we may perhaps reduce it somewhat, that there are no powers to direct it to the more essential uses. It might spread to the increased use in some of the areas which are not now considered essential.

The CHAIRMAN. You do recognize in your statement, on page 1, that the exercise of export controls has assisted in keeping prices from going higher than they have gone.

Secretary HARRIMAN. Yes; we have, generally speaking, something like 10 times the amount of applications for many of the items than we grant an export to license. So there is no doubt that there would have been more to export had we not exercised controls, and possibly substantially more. And that is true of other commodities which are in short supply.

Soda ash is one of them, for which the world price is several times the domestic price, where we permit practically no soda-ash export.

But I want to make it plain, sir, that it is our belief that the national interest is being served by the exports which we are now permitting within the areas for which we now have the staff to exercise such controls. We believe more could be accomplished if we had the staff to

expand the controls to include certain other products which are in short supply here.

The CHAIRMAN. What you are asking for specifically, then, is an increased appropriation so that you can increase your personnel.

Secretary HARRIMAN. Yes; it is a rather wider language of the act so as to permit of a broader interpretation in order to be able to control more areas of production and to direct them where they would do world recovery the most good.

The CHAIRMAN. I think we are in agreement, are we not—judging from my last statement, at any rate, I might be in agreement—that the use of export controls further to reduce the quantity of such commodities now being exported would result in increasing the domestic supply and, to that extent, ease the pressure on prices?

Secretary HARRIMAN. That would be true.

The CHAIRMAN. That is fundamental, is it not?

Secretary HARRIMAN. That is fundamental.

The CHAIRMAN. That is what I predicate my questions upon.

Secretary HARRIMAN. I agree with you, sir, that we should do it as far as it is practicable within the national interest of our foreign policy.

The CHAIRMAN. Further down on the same page you say:

> If our goods are sold at inflated prices, the result is a more rapid depletion of dollar exchange reserves of receiving countries.

Did you or anyone else in the administration, including the so-called Harriman committee, which did a splendid job——

Secretary HARRIMAN. Thank you, sir.

The CHAIRMAN. Give any consideration to the reasons for the rapid depletion or reduction of dollar exchange with respect to the real value of currencies of the recipient countries?

Secretary HARRIMAN. Well, generally speaking, it is lack of production abroad——

The CHAIRMAN. Lack of export; is it not?

Secretary HARRIMAN. Lack of production abroad which is creating the dollar shortage, plus the emergency needs for the reconstruction of the economies which were destroyed and dislocated by the war; those two working together. And if there was ability to produce in other areas of the world, there would be more multilateral trade and less call on the United States for many of the products for which they have to come to the United States.

The CHAIRMAN. Let us put it this way: Does the depreciated value of foreign currencies in relation to the dollar not discourage exports from those countries to the United States?

Secretary HARRIMAN. I am afraid it works the other way. It is a fact that there has been an attempt to hold certain currencies at a fictitiously high, or unnaturally high, level, which has, to some extent, discouraged the exports. When a currency is too high in relation to the dollar, that tends to discourage exports to the United States. When it is low, the tendency is to encourage exports.

The CHAIRMAN. In the balance of trade we usually try to find the golden mean between currency values. Here is my point: Can the American importer afford to raise $4 for every pound sterling, realizing that the pound sterling is probably not worth $4? Does that not discourage purchasing abroad? In other words, does it not discourage exports from Great Britain to the United States?

Secretary HARRIMAN. Well, it is the cost of production of the individual item in relation of the pound value to the dollar.

The CHAIRMAN. The cost of production is in terms of pounds and the purchase of that item here is in terms of dollars.

Secretary HARRIMAN. Yes. I would rather take other countries where the rates are perhaps out of balance. In certain of the other countries the rates are very much out of balance, and today currencies, due to governments' attempts to fix them, are not allowed the free play of the markets.

With respect to the franc, for instance, there is a black market which is perhaps more nearly the true value of the franc than the present value, and domestic prices, in terms of dollars, are very much higher than the value of those commodities would warrant.

The CHAIRMAN. Should we not encourage France, then, to take a little more realistic attitude with respect to devaluation of the franc in order to obviate the necessity of exporting dollars to make up the difference between the real value and the legal value of the franc?

Secretary HARRIMAN. You are correct, sir, in that we should use all efforts to get the French to do what they must eventually do—stabilize their budget and develop some fiscal policies which will lead to a stabilization of their currency. That will not stick, in the long run, unless their production is increased to meet their import requirements. So that, by the same token, we must help them increase their production, as well as carry on the difficult fiscal reforms—increasing taxes, reducing expenses, balancing the budget, and stopping the printing presses. But production has to be carried on along with stability of currency.

The CHAIRMAN. Well, if a country cannot export, there is no encouragement to produce, is there? If a country can export profitably, that encourages them to produce, does it not? That encourages them to broaden their capital base and encourages the production of all goods, does it not?

Secretary HARRIMAN. That is correct.

The CHAIRMAN. Do you have the authority now to control the export of petroleum products?

Secretary HARRIMAN. Do we control the export?

The CHAIRMAN. Yes.

Secretary HARRIMAN. Yes; we do control the export of petroleum products.

The CHAIRMAN. Can you give us figures on petroleum comparable to those which we have on steel?

Secretary HARRIMAN. Yes.

The exports and imports of petroleum products are substantially in balance, and I think in the fourth quarter our exports will be less than our imports. I think in the last quarter we are exporting about 12,000,000 barrels. Twelve million barrels is the amount that has been quoted for export for the fourth quarter as against 14,000,000 barrels previously.

The CHAIRMAN. What are the major countries to which we export? Can you give us a break-down?

Secretary HARRIMAN. Before I give you the figures I want to say this: Petroleum products are not one commodity. This relates to the crude oil, of which we import considerable quantities, and then we do export refined products, some of which we have in surplus supply and which the world has always gotten from us.

Before the war we exported, I think, about three times what we imported, whereas now we are, in the fourth quarter, on a net balance, an importer.

The CHAIRMAN. Will you break it down?

Secretary HARRIMAN. We do not have with us the per-country distribution of petroleum products, but we will be glad to furnish it.

The CHAIRMAN. Would you, please?

(The document above referred to is as follows:)

Percentage distribution of United States general imports and domestic exports of principal petroleum products by world areas—1939, 1946, and January–September 1947

	Crude petroleum					
	1939		1946		January–September 1947	
	Import	Export	Import	Export	Import	Export
North America	6.1	41.1	3.3	88.9	5.1	86.9
South America	93.9	3.3	96.6	2.4	94.7	2.4
Europe		31.3		8.7		10.7
Asia	0.0	24.2	0.1	0.0	0.2	0.0
Africa		0.1		0.0		0.0
Oceania				0.0		
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total imports and exports (1,000 barrels)	28,562	72,064	91,459	42,574	77,865	34,281

	Motor fuel					
	1939		1946		January–September 1947	
	Import	Export	Import	Export	Import	Export
North America	100.0	23.0	95.1	17.9	94.8	23.3
South America		3.9	4.9	2.2		1.6
Europe	0.0	55.7	0.0	62.4		15.6
Asia		12.4		5.2	5.2	6.2
Africa		2.2		5.9		2.5
Oceania		2.8		6.4		9.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total imports and exports (1,000 barrels)	139	42,353	612	41,820	663	32,531

	Kerosene					
	1939		1946		January–September 1947	
	Import	Export	Import	Export	Import	Export
North America		13.1		9.9	100.0	50.0
South America		5.5		1.2		2.6
Europe		50.7		64.8		28.3
Asia		20.5		14.8		15.4
Africa		8.2		5.6		1.3
Oceania		2.0		3.7		2.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total imports and exports (1,000 barrels)		7,994		8,187	24	5,679

Percentage distribution of United States general imports and domestic exports of principal petroleum products by world areas—1939, 1946, and January–September 1947—Continued

	Gas oil and fuel oil					
	1939		1946		January–September 1947	
	Import	Export	Import	Export	Import	Export
North America	100.0	20.7	93.9	19.9	95.7	35.0
South America		5.6	2.1	1.1	2.2	2.3
Europe	0	43.0	0	71.9	(1)	52.6
Asia		27.9	3.8	2.9	2.1	4.9
Africa		2.3	.2	2.1	(1)	1.2
Oceania		.5		2.1		4.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total imports and exports (1,000 barrels)	2,398	45,590	[2] 54,452	33,019	42,324	26,982

	Lubricating oil					
	1939		1946		January–September 1947	
	Import	Export	Import	Export	Import	Export
North America	92.3	6.6	100.0	7.1	100.0	6.7
South America		4.8		7.0	(1)	8.6
Europe	7.7	64.8	0	56.9		46.2
Asia		13.4		15.0		19.7
Africa		4.4		8.1		9.6
Oceania		6.0		5.9		9.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total imports and exports (1,000 barrels)	6	11,865	94	10,785	38	10,725

[1] Quantity less than 1,000 barrels.
[2] Does not include 148,595 barrels of fuel oil which was picked up by ship at sea and for which the country of origin is unknown.

Source: Minerals Yearbook, Bureau of the Census.

The CHAIRMAN. Could you give us now, for the purpose of the record, to inspire some thinking along that line, where the quantities are going to and in what amount?

Secretary HARRIMAN. In each case we ask the countries to furnish us information as to what their stocks and needs are and then allocate it within the quota which has been established, of certain petroleum products. Certain countries do not give us that information and we do not permit export to them.

The CHAIRMAN. There is some criticism that we have been exporting unusually large quantities of petroleum products to Russia. Is that correct?

Secretary HARRIMAN. Since the export controls on petroleum products were put into effect there have been practically no exports to Russia. There was a small shipment which was permitted, which was in process of being dispatched, so we did permit a small quantity to go out at the time these controls were being put into effect. But since that time there have been no exports of petroleum products to Russia. The reason is that the Soviet Government has not given us the information which we require, namely, the stocks of petroleum

products on hand and certain other information which we require from all countries before we set the quotas. The Russian Government has not given us that information and therefore we have not permitted any export to that country.

The CHAIRMAN. Can you tell us how much oil and other petroleum products have been exported to Russia this year?

Secretary HARRIMAN. Well, practically none since the middle of the year, except to the small quantities to which I referred. Up to that time, the total for the 6 months—before export controls were instituted—amounted to $1,128,000, or four-tenths of 1 percent of the total exports to all countries.

The CHAIRMAN. That was for the first 6 months of this year?

Secretary HARRIMAN. Yes; during the second 6 months there have been very small shipments—only the shipments which were in process of being loaded.

The CHAIRMAN. Do you have the 1946 figure?

Secretary HARRIMAN. The 1946 figure was—I do not have it with me, but I will be glad to furnish it.

(The information above referred to is as folows:)

The total value of the oil and other petroleum products exported to the U. S. S. R. during the year 1946 was $2,215,000.

The CHAIRMAN. Mr. Secretary, you said in your statement that your employees would discuss the necessity for these controls with the various industries. Would you establish industry advisory committees comparable to those set up under the Second War Powers Act for the Office of Price Administration?

Secretary HARRIMAN. That would be our intention.

The CHAIRMAN. Would you be in favor of giving them any administrative authority with respect to the exercise of controls?

Secretary HARRIMAN. I think you would have to give them—when we ask for priorities we would have to consult with the industry as to the manner in which they could best be administered within the industry, and it would not work otherwise. Similar to what has been done with the railroads—there is a good example. The railroads have been given a task to do, and they are carrying out the direction given to them.

The CHAIRMAN. The way the advisory committees worked under the Office of Price Administration, their chief complaint was that they were called in to Washington merely for the purpose of being told what the program was going to be, and that a letter would have sufficed. That has been our experience up to the present time with industry advisory committees, and that is why I asked you whether they would be given administrative functions.

Secretary HARRIMAN. In the War Production Board the industry advisory committees were extremely useful. They cooperated and good results were obtained.

The CHAIRMAN. On page 17 of your statement you say:

I also believe that authority to control inventories of scarce materials that basically affect industrial production or the cost of living would be of considerable value in the anti-inflation program.

In addition to steel, can you tell us about any other commodity which you have in mind that might come under immediate control?

Secretary HARRIMAN. Some of the industries which we would call down at once would be these: I mentioned the textile industry. I believe we would call the aluminum industry down, in contemplation of the shortage of steel; and with the increased use of aluminum there has begun to be a shortage of aluminum.

Now there are increased facilities for the production of pig, which are in excess of what is being produced now. The limitation on the production of aluminum is due to the shortage of electrical power. So we would attempt to work with the industry to see what could be done to help them get back into production some of the production facilities which they have closed down since the war. That would be one item.

Building materials: The areas of great shortage are those of nails, for example. We would see what could be done to get more nails for the construction industry. Cast-iron soil pipe is another; also gypsum wallboard, and so forth. In each case there are areas in which we might hope to stimulate production to help the construction industry to get their work done more quickly.

As you know, one of the great costs in building, these days, is due to the lack of items which are in short supply. And, of course, in all cases there are gray markets, which is unfortunate. I have already mentioned that in iron and steel.

In the case of the lumber industry there is a fair supply of rough lumber but quite a shortage of finished lumber; and we would want to work with the industry to see what could be done to increase that production and to possibly see what we could do to restrict consumption, whatever was desirable in the public interest.

Newsprint is another item. The larger publications have their sources of supply, but there is great hardship on the smaller publishers. I want to commend the bigger publishers for what they have done in trying to take care of the smaller publishers, but I believe that more could be done to get a more equitable distribution to protect the smaller people and to assist in eliminating the gray market and also to try to make some plans to get increased production in the newsprint field.

In saying that I want to commend the larger publishers for what they have done voluntarily toward taking care of the smaller publishers.

Nitrogen is another item which is in short supply. It is a very important item for fertilizer, of course, and for certain other industrial uses. We want to attempt to increase the production of nitrogen in this country by working with the Agriculture and War Departments, and we are trying to get back into production some of the plants which were shut down. It is a question of freight cars, again. Tank cars are the problem there.

The general area of the other nonferrous metals is one that also deserves attention. Soda ash and caustic soda is another area—although they are used for different purposes, they are in short supply. Soda ash is important for steel production and aluminum production. And between the two of them they cover soap products and textiles. I believe we could do something to help toward attaining better distribution in order to take care of the most important needs. They also are bottleneck items.

I have mentioned agricultural machinery in passing. That is, agricultural machinery is a vital necessity in the world today. There is a world food shortage, and for the foreseeable future there will be a world food shortage. And in order to stimulate production of food abroad an agricultural machinery production program is a very important item. We hope, by discussing with the steel industry and with iron and steel producers, to increase available facilities in order to get maximum production of agricultural machinery, which is so badly needed.

Another area, about which I cannot speak with too much detail, is that of heavy electrical machinery. We are in a very tight spot in many parts of the country in that respect. Heavy electrical machinery is needed here and it is needed also abroad. We want to study that industry to see what we can do to stimulate production and to take care of the most urgent needs by working with that industry.

Those are a few of the items to which we would want to give immediate attention.

The CHAIRMAN. You have asked for an extension of that program to include control of prices in these fields. Now, the necessity for control of prices usually is predicated upon an increase in production costs. Does it follow as a matter of fact that when you put a price on a commodity you should put controls on production costs, including wages?

Secretary HARRIMAN. As I have indicated, sir, there are certain areas in which I think price controls would be useful in stamping out the gray markets, and, in conjunction with export controls, to a considerable extent they would be reserve powers which may well be needed in order to avoid the inflationary spiral which we are now in and with which we are threatened.

The food area is one of the most important areas in dealing with the cost of living, as my testimony has indicated, along with some of the other areas which affect the cost of living. Price-ceiling powers and wage powers may well become necessary for those items.

The CHAIRMAN. For the purpose of the question let us agree that steel stands out by itself and that you would place allocation, priority controls, and price controls on steel as soon as you had had your conferences with the steel industry.

Secretary HARRIMAN. May I just say that in some cases the priority orders would not be necessary. We could get the cooperation of industry. And then, as I said, we want to go after the gray market in steel as quickly as possible.

The CHAIRMAN. If you placed maximum prices on steel, would you expect to place ceilings on wages paid by the steel industry?

Secretary HARRIMAN. The area in steel which seems at the moment to be an emergency area in the gray-market steel, which is caused by speculative profits being made by middlemen, and which are not normal mark-up profits but speculative profits.

The CHAIRMAN. Well, if you found that the price of steel had to come down below that which was affected by the gray market, would you place controls on wages in the steel industry?

Secretary HARRIMAN. Wages are not involved in the gray market. That is a speculative market. I have not indicated that I would go, at the present time, into the price of steel.

The CHAIRMAN. Well, the increased price of steel is incident to the gray market. Now, if by controlling that gray market you did not

bring the price of steel down to the point where you thought it should go, at the point where you had to put price ceiling on steel, would you not, at the same time, have to put controls on wages in order to effectuate your price ceilings?

Secretary HARRIMAN. Mr. Chairman, I am talking about the gray market in steel——

The CHAIRMAN. I am talking about where and when you expect to exercise wage controls, and I have taken steel as the outstanding bottleneck. Assuming that you are not going to use the power to control wages in steel, will there be any necessity for putting wage controls on other commodities?

Secretary HARRIMAN. As I said, the authority to set ceiling prices must include authority to limit wage increases.

The CHAIRMAN. What we want to know is what use you are going to make of those powers.

Secretary HARRIMAN. As I have emphasized, that would be in a very limited area. In the gray market wages are not involved.

The CHAIRMAN. I know. But if you used your power to control prices of steel, would you at the same time place ceilings on wages in the steel industry?

Secretary HARRIMAN. Not in the areas I am discussing, because, Mr. Chairman, the producing companies have a list price of their products. There are cases where a list price of a certain steel product is, let us say, $90, and where, through the gray market, consumers pay $200 or $240 for that type of product. There is no question of wages in that case but merely a question of speculative profits.

The CHAIRMAN. All right, then.

Why do you want the power to control wages? If you are not going to use it in connection with steel, in connection with what commodities are you going to use it?

Secretary HARRIMAN. If it is found necessary, in any area which I have indicated, as a reserve power, to set price ceilings, wages would then naturally have to be considered. But I have said that I hoped it would not be necessary to use such power to limit wages. I am confident that if we can get the cost of living down wages can be held in line.

The CHAIRMAN. Let us put it this way: If you rolled back the price of steel—as you indicated you might have to under price controls—would you at the same time roll back wages?

Secretary HARRIMAN. Unfortunately it is not the cost of steel which affects the cost of living but the cost of food and clothing and fuel and other things which go into the cost of living.

The CHAIRMAN. You do not mean that, do you, Mr. Secretary? You do not mean to divorce from the cost of food the cost of machinery used in the production of that food, which is made of steel, do you?

Secretary HARRIMAN. Well, in my testimony, sir, I have indicated that the areas on which we would concentrate would be the cost-of-living items and those items which affect the cost of production. For instance, Mr. Chairman——

The CHAIRMAN. Let us use food. We got started on food. Let us continue along that line. Let us say that the price of farm machinery for the production of corn—the price of vats and other machinery used in the processing of that corn—is so high that there is a direct

relation between the price of steel and the price of corn—as there undoubtedly is. Would you not think that regulating the price of steel might ipso facto influence the price of corn?

Secretary HARRIMAN. Mr. Chairman, at the present time the parity price is a method of judging the cost to the farmer of the products he has to buy, and although I tried to explain that a comparison with 1939 was not fair because the farmers were getting only 77 percent of parity at that time today some farm products are not above parity but others are substantially above parity. Some of them, I think, are 40 percent above parity. On the average, they are about 20 percent above parity.

The CHAIRMAN. Well, it is said that——

Secretary HARRIMAN. Now, certainly you could not control the price of farm products if they were below the reasonable price in relation to other costs. But it is a fact that certain food items, certain farm products, have moved up faster than the other areas, and unless something is done about it, it will touch off another spiral of wage and price increases.

The CHAIRMAN. Mr. Secretary, do you think that maximum prices can be effectively administered without control of production costs, selective or otherwise?

Secretary HARRIMAN. I did not hear the question, sir.

The CHAIRMAN. Do you think that we can control prices on commodities, selectively or otherwise, without controlling production costs?

Secretary HARRIMAN. Where there are excessive prices, where they are speculative, where they are out of balance, yes. During the war we had to direct about 40 percent of our economy toward the war effort. Now it is a very small fraction of that which is out of balance, and if we can keep some of the prices which are out of balance from skyrocketing I do believe that selectively we can check the inflationary spiral; that is, if it is used in those areas where the prices are out of balance.

The CHAIRMAN. Then do you think that we can effectively maintain maximum prices on any commodity without control of production costs?

Secretary HARRIMAN. If those prices are out of balance with the general trend of prices; yes, sir. If you were to go to a war situation, where you were trying to mobilize 40 percent of the economy, you would have to control everything.

The CHAIRMAN. What commodities do you have in mind when you say that the high prices are due to speculative practices?

Secretary HARRIMAN. I have indicated the great market areas, which are of immediate concern. Then there is the clothing area, which we are going to investigate, and the indications appear to be that there are certain areas where there are unusual profits.

The CHAIRMAN. What do you want the power to control wages for? If you want the power to control prices merely to take the water out of it, what do you want the power to control wages for?

Secretary HARRIMAN. Only because to a limited extent there may be wage demands which are out of balance with the wage scales of the country.

The CHAIRMAN. Where is that area? Where is that field in which you would have to control production costs in order to control prices?

Secretary HARRIMAN. I stated it, Mr. Chairman, as a reserve power for the future.

The CHAIRMAN. Let us get into this area.

Secretary HARRIMAN. I did not state that it would be needed at this time.

The CHAIRMAN. Please give us an example of a commodity which you think affects the cost of living, and on which you think you might place price control without the necessity of production control?

Secretary HARRIMAN. Mr. Chairman, I have mentioned the great market areas. I have also mentioned that we wish to study the clothing industry, and see if there are areas in that industry where there are exorbitant profits being made but at the present time I know of no area——

The CHAIRMAN. We are out of that area now, we are over in this other area, where price controls could be effectuated without putting on production controls. In other words, what do you want the power to control wages for? And where are you going to use that if you get it?

Secretary HARRIMAN. Only in the event of an emergency for the future. I know of no area where such power would be needed today.

The CHAIRMAN. Is the emergency here now that would justify us giving you power to control wages?

Secretary HARRIMAN. Only if the situation develops to a point where it is necessary to control prices in an area where the wage demands were affecting production.

The CHAIRMAN. Is the emergency here now to justify our giving you control over prices?

Secretary HARRIMAN. I think the emergency is very grave right now.

The CHAIRMAN. Then why can you not tell us where you would put price controls and where you would put on wage controls?

Secretary HARRIMAN. I have tried to indicate to you the areas where we would at once use this price power.

The CHAIRMAN. We are not going to look for a pig in the poke in this Congress. We want the best information. I have sat on this information since 1933 and I have yet to get as vague a program as this submitted to this committee, and frankly I think I have read an awful lot of bills and helped in the writing of a lot of bills, but I would not know how to begin, right now, in writing a bill to effectuate your general purposes without giving you carte blanche authority over the control of our economy.

Secretary HARRIMAN. Well, we will try to help by submitting language which will indicate the limited character of the authority for which we are asking, and the standards which the Congress can establish to deal with the matter.

The CHAIRMAN. If you had price controls, what would you do with the price of steel? Would you leave it where it is?

Secretary HARRIMAN. I have said, I think, a half dozen times, sir, that we would go after the gray market in steel, which is the area of abuse and speculation.

The CHAIRMAN. If you had powers to control, to control the price of wheat, where would you leave the price of wheat, near where it was?

Secretary HARRIMAN. I would rather have you ask the Secretary of Agriculture, Mr. Anderson, that question.

The CHAIRMAN. Yes; he says that they are going to try to work it out by voluntary controls, and he wanted the power to allocate and exercise priorities, and the power to put on maximum prices if and when the voluntary program failed.

That is my understanding of his testimony. We are a little fearful, as I said, with that existence of these powers whether used or not, might have a serious effect upon our economy.

Secretary HARRIMAN. Mr. Chairman, I have tried to state in my testimony that it takes a considerable period of time to analyze and develop methods of dealing with these questions, and when they come up, if we do come to an emergency, it is essential to act promptly, but I have also tried to make plain that these were reserve powers which were necessary to get the full advantage of the cooperation which we hope for, and also to bring in the least willing minorities.

The CHAIRMAN. You don't expect to make immediate use of the powers to allocate and the powers to——

Secretary HARRIMAN. Yes, sir; we would expect to make immediate use of the powers to limit production.

The CHAIRMAN. Limit production?

Secretary HARRIMAN. I mean limit use, and to direct——

The CHAIRMAN. When you limit use do you not limit production?

Secretary HARRIMAN. Pardon?

The CHAIRMAN. When you limit use do you not limit production?

Secretary HARRIMAN. Not if there is a reasonable substitute, in terms of a commodity. It might well limit use. We might well defer construction in certain areas which are not essential.

The CHAIRMAN. Can you think of a reasonable substitute for steel in the part of an automobile which is made of steel?

Secretary HARRIMAN. Well, I am not——

The CHAIRMAN. There are certain technological advances which we are making but we cannot afford now to wait for them to take over.

Secretary HARRIMAN. I believe the automobile people have made every effort to use substitute materials—aluminum, plastic, and otherwise.

The CHAIRMAN. Just about to the limit, have they not?

Secretary HARRIMAN. I would imagine the automobile people have, but I do not know.

The CHAIRMAN. Mr. Secretary, you cannot tell us, outside of the allocation of steel, in the steel industry, on what commodities you would exercise any of these controls if you had them, as of today, is that correct? Yet you say we have an emergency with us now.

Secretary HARRIMAN. I have tried to give you a list of those areas where we would at once begin an analysis. I will be glad to repeat them.

The CHAIRMAN. You do not need to repeat them.

Secretary HARRIMAN. The textile area, newsprint area, nitrogen, aluminum, nonferrous materials, building materials, heavy electrical machinery, and agricultural machinery. Those are the areas where we would begin at once.

The CHAIRMAN. I am sorry I have taken up more time than I had intended. Will you be available to come back this afternoon?

Secretary HARRIMAN. I will be glad to. I did have a rather important engagement at 3 o'clock. I will be glad to explain what it is if you wish.

The CHAIRMAN. That is not necessary. We will take your word for it.

Secretary HARRIMAN. However, I will be glad to be at your service.

The CHAIRMAN. Could you be here at 2?

Secretary HARRIMAN. I will be here at 2.

Mr. SMITH. Mr. Chairman, may I ask a question at this time? Will the Secretary be available at another time immediately following the conclusion of his testimony this afternoon? In other words, last week, we had Secretary Anderson.

The CHAIRMAN. He is coming back, Dr. Smith.

Mr. SMITH. Well, I would like to get these things in, in order that I just want to make sure that we have an opportunity to interrogate—to carry this questioning through.

The CHAIRMAN. I might say that the Chairman had presupposed that he would not take as much time as he has this morning. But I assume the Secretary will be available later in the week, will you not?

Secretary HARRIMAN. Oh, yes.

Mr. KUNKEL. May I ask a question at this time? I want to get this in the record at this point.

Mr. Secretary, I take it that exports and imports of oil would equalize due to an increase in exports and not to a drop of production in the United States. That is correct, is it not?

Secretary HARRIMAN. I did not hear the question; I am sorry.

The CHAIRMAN. I take it that exports and imports of oil were equalized due to an increase in imports by the United States and not to a decrease in our production in the United States?

Secretary HARRIMAN. The change in the relationship between prewar and the present time is due to the tremendous increase in consumption of petroleum products in this country.

The CHAIRMAN. Why can you not answer that question directly? Is the equalization due to an increase of imports into the United States or is it due to a decrease in production in the United States?

Secretary HARRIMAN. We have reduced our exports in the fourth quarter. I will give you the figures for production in this country if you wish. That is Mr. Krug's primary responsibility, however.

The CHAIRMAN. We will let that go. What I would like to know is where the added imports came from. Will you please put that in the record?

Secretary HARRIMAN. I can get you the figures this afternoon as to our imports before the war and our present imports.

The CHAIRMAN. I want to know where the increased imports came from; what parts of the world.

Secretary HARRIMAN. Very well.

The CHAIRMAN. We will place in the record at this point table 1, percentage distribution of total consumer expenditures, third quarter, 1947.

(The table referred to is as follows:)

TABLE 1.—*Percentage distribution of total consumer expenditures, third quarter 1947, seasonally adjusted*

Food		31
Clothing		12
Rent (including imputed rent of owned homes)		8
Alcoholic beverages	5.4	
Tobacco	2.2	
Automobile fuel and oil	2.3	
All other nondurable goods	7.8	
		17
Automobiles	3.6	
Furniture and household equipment	6.0	
All other durable goods	2.3	
		12
Household operation (mostly domestic service and utilities)	4.2	
Personal service (barber, beauty shops, laundries, etc.)	1.9	
Recreation (mostly admissions)	2.2	
Transportation	2.7	
Other services (medical care, religious contributions, etc.)	8.6	
		20
Total		100

TABLE 2.—*Contribution of major components to the rise in consumers' price index*

	Percent of increase in combined index		
	1939 to June 1946	June 1946 to September 1947	1939 to September 1947
Food	53	70	61
Clothing	18	11	15
Rent	2	3	3
House furnishings	7	3	5
Fuel, electricity, and ice	2	3	3
Miscellaneous	18	9	14
	100	100	100

TABLE 3.—*Relative movement of farm and nonfarm prices*

INDEXES (1910-14=100)

	1939	June 1946	September 1947
Prices received by farmers	95	218	286
Prices paid by farmers	124	188	236
Parity ratio	77	116	120

PERCENT OF INCREASE

	1939 to June 1946	June 1946 to September 1947	1939 to September 1947
Prices received by farmers	129	31	201
Prices paid by farmers	52	27	92

The CHAIRMAN. We will stand in recess until 2 o'clcok.

(Thereupon, at 12:30, the committee recessed until 2 o'clock, same day.)

AFTERNOON SESSION

Present: Messrs. Wolcott (chairman) presiding, Gamble, Smith, Kunkel, Talle, Sundstrom, Buffet, Cole, Scott, Banta, Foote, Spence, Brown, Patman, Monroney, Hays, Buchanan.

The CHAIRMAN. The committee will come to order.

To meet Secretary Harriman's convenience, we will have to get through with him this afternoon at about 10 minutes to 3; is that right, Mr. Secretary?

Secretary HARRIMAN. That will be all right, sir.

The CHAIRMAN. And if there are further questions, can you return at some time later?

Secretary HARRIMAN. I will be glad to at your convenience.

The CHAIRMAN. Very well.

Mr. Brown.

Mr. BROWN. I have no questions at this time.

The CHAIRMAN. Mr. Kunkel.

Mr. KUNEL. Mr. Harriman, how do you expect to handle these limitation orders on nonessential uses?

Secretary HARRIMAN. The limitation orders?

Mr. KUNKEL. Yes.

Secretary HARRIMAN. We will bring the industry down and discuss with them their uses, and whether they can use substitute materials, how their use would affect their position, and so on. We are doing it now, as I explained this morning, in connection with the use of tinplate. And then, after that investigation, we intend to issue limitation orders in connection with the use of the particular short commodity.

Mr. KUNKEL. Would that eliminate completely any new enterprises in the field on which you were limiting the use?

Secretary HARRIMAN. No, we would not limit any other use except the particular one we were investigating.

Mr. KUNKEL. But it would prevent any new enterprise from going into business in that field, would it not?

Secretary HARRIMAN. The use of that particular commodity, yes. Take tinplate for example. If we restricted the use of tinplate for beer cans or for coffee, then, all who were dealing with coffee would have to conform.

Mr. KUNKEL. And you plan to impose price control without wage control, if, in your judgment, you wish to do so; is that correct?

Secretary HARRIMAN. The immediate situation is to deal with the areas I referred to this morning. The reserve powers for price ceilings would be used in the event of emergencies and when price ceilings, when necessary, were established, it would be necessary to review the wage situation and to be satisfied that the wages were not out of line or else to deal with the wage situation on the basis of setting a ceiling.

Mr. KUNKEL. Suppose you do regulate wages, how are you going to control the flow of labor?

Secretary HARRIMAN. You could not set wage ceilings which affected the flow of labor. That would have to be a consideration in connection with the fixing of wages. You are dealing with a hypothetical case, and I am giving you a hypothetical answer.

Mr. KUNKEL. It would be interesting to know how you would determine what standard to use.

Secretary HARRIMAN. I am sorry. I did not hear you.

Mr. KUNKEL. It would be interesting to know what standards you would use. In other words, if you controlled the price of labor, how you would determine what is an adequate price to get for labor in order to get the maximum number of people into the industry, if you cannot secure them, ordinarily you secure them by increasing the wage scale.

Secretary HARRIMAN. In most areas the wage rates are on a definite pattern in connection with the rest of the industry.

Mr. KUNKEL. That is all.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. No questions.

The CHAIRMAN. Dr. Talle.

Mr. TALLE. Mr. Secretary, one advantage of mass production is the fact that the cost curve goes downward to the right as more units are produced. Now, in the event you restrict materials, and a concern must cut down its production, the total unit cost in that industry is bound to rise, is it not?

Secretary HARRIMAN. As a hypothetical case, that is correct.

Mr. TALLE. That is more than a hypothetical question, is it not, because when you say "essential uses" and "nonessential uses," whether an industry is essential or nonessential will depend on somebody's judgment?

Secretary HARRIMAN. That is correct.

Mr. TALLE. And whoever has the power to decide has the power to stop that industry from operation, or to limit its operation, and the industry may go bankrupt, or, in any event it must produce under conditions of higher total unit cost?

Secretary HARRIMAN. I speak of that being a hypothetical case, Mr. Congressman, because from the operations in which we have been engaged in the areas that we now control, it is not the reduction of the production of that industry, but it is the substitution of other materials in place of the ones in short supply.

Mr. TALLE. In the event that an industry must limit its production, its costs will rise—assuming it does not shut down altogether. What program have you for dealing with unemployment in that industry?

Secretary HARRIMAN. I can only say that the principal labor unions have come out for allocations, and that is an indication that they are not fearful of unfair treatment of labor—in addition to which I testified this morning that in areas of that type representatives of labor should be consulted, so that there would be no undue hardship.

Mr. TALLE. How about the vast horde of unorganized labor?

Secretary HARRIMAN. Well, we have always considered, in other situations, the interests of labor, whether or not organized, through getting representatives to view it from their standpoint. At the present time there is relatively little difficulty in finding employment, and that is one of the situation which has, in certain areas, limited production.

Mr. TALLE. In the event that prices are rolled back, do you propose to use production subsidies?

Secretary HARRIMAN. I do not understand the question, sir.

Mr. TALLE. In the event that prices are rolled back, do you propose to use production subsidies?

Secretary HARRIMAN. That is not involved in this program.

Mr. TALLE. In other words, you propse to squeeze out some water that you consider to be excess profits at this time?

Secretary HARRIMAN. Well, the drive would be to reduce consumption of the articles in critical supply. It would affect prices and profits in certain areas; yes.

Mr. TALLE. You have power now, do you not, to expose the gray market?

Secretary HARRIMAN. I suppose the Department of Commerce could collect information on any area and make it public. We have not the staff to do that at the present time. Also, we have not the statutory authority to demand and receive information that is necessary to expose the gray market, and at the present time it is not against the law to buy and resell at any price that anybody wants to pay.

Mr. TALLE. I note in your statement that you have not discussed cheap money. Are you in favor of the secondary reserves proposed by the Chairman of the Board of Governors of the Federal Reserve Board?

Secretary HARRIMAN. I am very frank to state I have not had an opportunity to study his proposal. I have been preparing myself to appear before the committee before which I have been appearing, and I have not had an opportunity to study it. Mr. Snyder would be a better man to answer that question.

Mr. TALLE. I understand he said they are not necessary, and Mr. Eccles says he wants them.

Secretary HARRIMAN. I am ready to say this: I believe it is the time when we want selectivity to do certain things. One is to get our economy in balance. We want to try to promote home construction for the veterans and the smaller income people, to carry out our foreign policy, and get our economy in balance. It is a period of selective credits rather than one perhaps of general reduction in credits, although it is perfectly true that any credits granted do add to the inflationary pressures.

Mr. TALLE. After all, prices are merely the result of certain causes, and for a good many years money has been made cheaper and cheaper and cheaper. We are reaping the whirlwind now, and it should surprise nobody that prices are high because money is cheap.

I have been wondering what you would do to the farmer under this program.

Secretary HARRIMAN. What would I do to the farmer?

Mr. TALLE. Yes.

Secretary HARRIMAN. The administration of that would come under the Secretary of Agriculture. I pointed out this morning that agricultural prices were higher on the average than other commodity prices, and food costs where the area where there has been the greatest increase in the cost of living, and that is an area where we would hope to get adjustments. But the farmer is not one person. Certain prices have gone up very high, whereas other prices have not. It is a question of dealing with each individual commodity, sir.

Mr. TALLE. I recall that in your testimony this morning you stated that meat would probably be the first food item to which you would pay attention under your program.

Secretary HARRIMAN. That is the item which is being given most attention in connection with the drive to enlist the interests of the consumer to reduce consumption.

Mr. TALLE. Would you propose to roll prices back on meat?

Secretary HARRIMAN. I would hope, myself, speaking personally, that the prices on meat would move back, if the consumers would reduce their demand. That would be the automatic effect of it.

Mr. TALLE. I recall that you mentioned a percent of individual quantity consumed on the average. Was it last year or this year, as against 1939?

Secretary HARRIMAN. I——

Mr. TALLE. Did you mention 156 pounds for 1946, or was that for 1947?

Secretary HARRIMAN. I understand that it is running now at the rate of 156 pounds per capita.

Mr. TALLE. What was it in 1939?

Secretary HARRIMAN. I think it was about—I do not recall exactly, but it is 23 pounds more per capita now, as I recall. That may not be exact, but it is somewhere in that neighborhood.

Mr. TALLE. When that figure was arrived at, what population figures were used?

Secretary HARRIMAN. I am taking figures that I received from the Department of Agriculture and I cannot answer that question. These are per capita figures, not total consumption figures.

Mr. TALLE. I have found, in some instances, that the population figure is taken at 140,000,000, when obviously we have several more millions at this time. And, of course, if you take the lower figure, it tends to make your result higher.

Secretary HARRIMAN. If you are interested in having me check it, I will be glad to do so and give you the answer. It is the responsibility of the Department of Agriculture to develop those figures and not that of my Department.

Mr. TALLE. I think I would like to have the figure based on the latest census estimate.

Secretary HARRIMAN. I will be glad to supply it for the record, Dr. Talle.

(The document referred to is as follows:)

Estimated population of continental United States for specified dates

	Total, including armed forces overseas	Total, excluding armed forces overseas	Civilian population
Apr. 1, 1940 (census)	131, 669, 275	131, 669, 275	131, 401, 985
July 1, 1945	139, 585, 518	132, 018, 525	127, 452, 048
July 1, 1946	141, 228, 693	139, 893, 406	138, 394, 474
July 1, 1947	144, 002, 000	143, 382, 000	142, 628, 000

Source: Bureau of the Census, U. S. Department of Commerce.

Apparent per capita civilian consumption of major food commodities, 1935–47

Commodity	1935–39 average	1943	1944	1945	1946	1947 [1]	1947 as a percentage of 1935–39	1947 as a percentage of 1946
	Pounds	*Pounds*	*Pounds*	*Pounds*	*Pounds*	*Pounds*		
Meats (dressed weight)	125.6	138.6	152.8	143.8	152.8	155.0	123	101
Eggs	37.3	43.2	43.8	49.6	46.8	47.2	127	101
Chicken (dressed weight)	17.9	30.6	26.8	28.9	25.3	23.7	132	94
Turkey (dressed weight)	2.6	3.3	3.3	4.3	4.5	4.1	158	91
Condensed and evaporated milk	16.7	18.6	16.1	18.3	18.8	19.8	119	105
Fluid milk and cream	340.0	393.0	411.0	433.0	425.0	403.0	119	95
Fruits:								
Fresh	138.5	120.3	143.8	143.8	140.7	148.0	107	105
Canned fruit	14.9	12.9	9.3	14.7	20.7	19.0	128	92
Canned juices	4.0	6.9	9.8	10.3	17.2	16.0	400	93
Frozen fruit	.8	1.1	2.0	2.3	3.1	3.0	375	97
Vegetables:								
Fresh	235.0	237.0	254.0	265.0	274.0	260.0	111	95
Canned	31.1	34.5	34.6	43.2	46.5	44.0	141	95
Frozen	.4	.7	1.4	1.7	2.1	2.5	625	119
Corn products:								
Corn meal	22.9	21.0	20.0	19.0	17.0	19.0	83	112
Corn sirup	7.7	12.1	12.1	12.0	12.0	12.5	162	104
Corn starch	1.3	1.8	1.4	1.9	1.9	2.0	154	105
Corn sugar	2.7	4.3	4.0	3.8	3.8	4.0	148	105
Breakfast cereals	1.7	2.6	2.5	2.5	2.2	2.6	153	118
Hominy	1.2	1.8	1.8	1.7	1.5	1.8	150	120
Oatmeal	3.9	4.0	3.2	4.1	4.4	4.4	113	100
Barley food products (malt equivalent)	1.2	1.5	1.5	1.5	1.8	1.7	142	94
Wheat:								
Flour	153.1	162.7	162.2	164.2	155.7	150.0	98	96
Breakfast cereals	3.7	3.7	3.7	3.7	3.5	3.8	103	109
Coffee (green-bean basis)	14.0	13.0	15.8	16.7	19.3	18.0	129	93

[1] Preliminary estimate.

Source: Department of Agriculture.

NOTE.—Population estimates used to obtain per capita consumption figures are official census estimates of total population adjusted for under enumeration of children under 5 and for military personnel not eating out of civilian supplies.

COMMENT

In view of the widespread opinion that large exports have impaired the living standards of the American people, particularly in regard to food consumption, the foregoing table is revealing. It shows that we are consuming, per capita, about 25 percent more of important foodstuffs than prewar and for some items the increase has been far greater. It shows also that we are on the whole doing as well this year as last year. While we could have had more goods at home if we had exported less, it is also true that our exports have thus far not prevented us from making the most rapid strides in national income and consumer satisfactions that we or any other people have thus far achieved.

Mr. TALLE. Now, as a member of the committee that worked on prices during the summer, I came to one conclusion which is mine—whether it is the committee's or not—and that is this: That the items in the cost-of-living index that have gone up the most are those that are based on grain. So you can go a step back from meat and go to grain. That is why I am asking, under this program, what will happen to agricultural products? That is certainly related to this inquiry, because whether farmers get machinery or not is pretty important.

Secretary HARRIMAN. That is a question which can be answered by Mr. Anderson. There is no question about the fact that our exports of grain make less grain available here at home with which to feed livestock. But that which is being exported is fit for human beings, and as a general average it takes several times as much grain per calorie to produce a calorie through animal-products, so that in terms of trying

to feed people when there is a world shortage of food, consumption by human beings of grain is a more economical way to sustain human life than to feed it to livestock and to obtain the animal products which come from livestock.

Mr. TALLE. I agree with that, and yet I understand that it is the avowed policy of the British not to cut their herds down.

Secretary HARRIMAN. I do not have with me the relative herds in England. I know they have cut back some of their animal population, but it is now quite close. You must keep it in balance with the roughage that a country has. They are also away down on their meat consumption. If I remember correctly, 20 cents a week is the amount they are permitted to spend for meat per individual under their ration. When I was there that amounted to about two lamb chops a week. It may be less now.

Mr. TALLE. I will be glad to have this information checked, but it is my understanding that the British have that policy, and I understand, too, that the French have refused to reduce their herds.

Secretary HARRIMAN. I will be glad to supply you with the animal population as far as I have them, both for England and France. I think, generally speaking, the French, if I remember correctly, are about the same as they were prewar. Britain has always been an importer of meat and is an importer of meat today, even at the low ration.

Mr. TALLE. Is it not true that your Department has had control over the export of linseed oil?

Secretary HARRIMAN. Linseed oil is on our positive list, as it is called; yes.

Mr. TALLE. I understand you permit that to be exported now without license.

Secretary HARRIMAN. Yes; it is. Are you interested in the amount of exports of linseed oil going out of the country now?

Mr. TALLE. I wanted to establish whether or not linseed oil is being exported without license. I have been told that it is.

Secretary HARRIMAN. While we are getting that information, I have here—I am told that it does require a license. All linseed oil going out of the country is under license. But I am trying to get the figures on the amount.

I have the information here on the livestock numbers in the 16 nations who participate in the Paris proposals along with western Germany. I would like to read that into the record, if I may.

Mr. TALLE. Yes, indeed.

Secretary HARRIMAN. The average of 1934–38: There were 75,000,000 cattle. At the present time, that number is approximately the same—74.8 million.

Hogs: There were 41,100,000 hogs, in the average of 1934–38, and today there are 25,700,000.

Sheep: There were 106,300,000. There are now 97.5 million.

Horses: 13,400,000; now 12,400,000.

Poultry: 538,100,000; now 459,400,000.

As to linseed oil, total exports for 1946 amounted to 1,439,000 pounds. For this year I have the monthly figures for the first 9 months. I will have it added and give it to you in a moment.

Mr. TALLE. I understand, then, that you do issue licenses and do not permit export of linseed oil without license?

Secretary HARRIMAN. That is correct.

Mr. TALLE. In connection with the figures you have just read, could your staff insert the comparative populations for the years used?

Secretary HARRIMAN. In these countries?

Mr. TALLE. In those countries, yes.

Secretary HARRIMAN. Yes, we will attempt to give you that. Generally speaking, I think these countries include about 260,000,000 people.

Mr. TALLE. It is true, is it not, that in a free economy, or in any economy, prices are interdependent?

Secretary HARRIMAN. That is correct; in any free economy they are.

Mr. TALLE. Would you not find it rather difficult to select a few and deal with those, without regard to all the rest?

Secretary HARRIMAN. Under our unusual conditions, prices are out of balance with any normal pattern, and one would want, if authority were given, to try to bring prices more in balance.

Mr. TALLE. Perhaps I cannot comprehend a number of things, but I am willing to admit that.

Secretary HARRIMAN. So am I, sir; very much.

Mr. TALLE. But I tried to read your statement with considerable care. I do not have a copy of the statement you read this morning, but I have a copy of the one you read before the Joint Committee on the Economic Report, but I assume they are substantially the same?

Secretary HARRIMAN. The one I read this morning covers more points, but there is no difference in substance.

Mr. TALLE. Looking at page 13 of your statement, quoting:

> A broad extension of export controls over the principal items which are now produced by those countries and the United States, whether in short supply or not—

now, as I look into that, it seems to me that covers about everything. Then I look at page 15: there is something similar.

Secretary HARRIMAN. I think that is substantially the same as what I said on page 11 of the statement I have given here this morning. Congressman, may I say that related to the European recovery program, in order to be sure that the moneys were not used for nonessentials?

Mr. TALLE. Well, for instance, on page 15 of the statement you gave before the Joint Committee on the Economic Report, you make a reference at the bottom of the page to short supply, and I am not sure whether you mean short supply in the United States or short supply in the world.

Secretary HARRIMAN. Are you reading from the testimony I gave this morning?

Mr. TALLE. No, this is from the testimony you gave before the Joint Committee on the Economic Report.

Secretary HARRIMAN. I am sorry, sir, I do not have a copy of the testimony I gave before the Joint Committee on the Economic Report. Oh, yes; here it is. Did you say page 15, bottom of the page?

Mr. TALLE. Yes, quoting:

> I want to emphasize, however, that I do not anticipate that under existing conditions the very broad controls exercised over tin will be necessary for other scarce commodities—

then the statement goes on to say something more which leads me to believe that you want control over everything.

I quote again:

> To achieve the objectives set forth in the President's message, controls should be limited in character and applicable only to scarce commodities—

and so on.

Now, the question is: Scarce in the United States or in the world?

Secretary HARRIMAN. In the United States. That relates to the domestic problem. My testimony this morning followed parallel lines, Mr. Congressman.

Mr. TALLE. And on page 19 of that same statement, under "Inventory controls," there is the paragraph beginning with the words "General authority" and so on. I get the impression from your entire statement that by the time the thing got into operation it would control everything. And since prices are interdependent anyhow, I do not see that there would be any demarkation points. The whole economy would be rigidly controlled.

Secretary HARRIMAN. Congressman, this morning I tried to explain the difference in the application of these powers. They certainly are broad powers. But they would be under standards set by the Congress.

May I just, in passing, mention these inventory controls? I have been in the railroad business for a good part of my life, and I know the railroads always buy things that are in short supply and stock up on them. I think we can get the railroads to reduce their inventories if we have the power to go and investigate the situation. It would be utterly impossible and impractical for the Government to set what are inventory standards, but to go to those areas where there appears to be excessive accumulation and get the cooperation of the industry involved, and also force the reduction if it were necessary to do so.

But I know that in the railroad business we have always, in order to protect our maintenance, stocked up on items in short supply. And I am quite sure that I could go to any railroad today and they would probably have a good stock of the things that are in short supply which they would not use fully until they were in full supply. It is that type of use of these controls which would be effective and practical. And I state that from my own business experience.

Mr. TALLE. You are leaving out freight cars, are you not, when you say that?

Secretary HARRIMAN. I am speaking of inventories of materials on hand, and not, of course, the equipment. There is a shortage of freight cars. One of our purposes would be to increase the availability of freight cars.

Mr. TALLE. In an industry that is run well, and which seeks to give its workers steady employment—some have gone so far as to guarantee an annual wage—they cannot do that unless they know well ahead what materials they will have to work with so that they can set up production schedules, that is right, is it not?

Secretary HARRIMAN. That is correct.

Mr. TALLE. And if we allowed this control, we would be permitting a few people in Washington, D. C., to exercise their judgment pretty well over the lives of all the workers employed by such industries, would we not?

Secretary HARRIMAN. In those areas where controls were exercised, it would have a bearing, but I am convinced that there would be a better flow of materials if there were reasonable exercise of authority to reduce consumption in the less essential areas, and direct supplies to other areas, such as freight cars, for example, which will help the flow of distribution in this country, and by and large industry would be able to operate at a better rate than today, with a steadier flow of materials, and with sufficient cars to move them.

Mr. TALLE. Is it your belief that if this program were followed, production in the United States would be increased?

Secretary HARRIMAN. It is my definite belief that it would be increased.

Mr. TALLE. I must follow it up and ask why.

Secretary HARRIMAN. Because you would assist, even in the few areas, in getting materials to the bottleneck areas—trying to break the bottlenecks, in construction, you would try to break the bottlenecks in construction so that there would be a more even flow to the job than there is today. Production is increased by breaking bottlenecks. Industry today cannot, by itself, break bottlenecks. It needs the help of Government to do it.

Mr. TALLE. May I reply to that in two ways:

All during the history of the Office of Price Administration, I struggled with bottlenecks. I did not know that word before the Office of Price Administration came along. They were born together.

Secondly, I want to use an illustration—

Secretary HARRIMAN. May I correct you, sir? That is a war term, and the War Production Board broke many bottlenecks. And we got fantastic production as a result of breaking bottlenecks.

Mr. TALLE. Well; I served in the Navy in World War I, but drought was ruled out and we did not use bottles.

Secondly, on September 24, I sent a telegram to the War Assets Administration inquiring whether all pipe used by farmers for watering systems, under the War Assets Administration, would be distributed out of Minneapolis, Minn. I had the information that it would be, but I wanted a statement from General Littlejohn. Five days later on September 29 I got a reply naming six States over which Minneapolis would have control for distribution. A firm in my district, which has operated for more than 90 years, filed an application, and I may tell you that not only did they file an application, but they sent certified checks with every order, and I have been struggling ever since to get delivery on an inch of pipe. Now, that pipe is supposed to be used to help stock raisers in the Middle West, and since meat was mentioned as the first point with which you would deal, I think it is a proper question. I am still awaiting some statement from the War Assets Administration. They seem to be throwing up their hands now, and saying, "We will leave it to the regional director in New York."

I asked them, "Why New York?" They said, "The pipe is located at Yonkers." Now, I do not know that a lot of cattle are raised in Yonkers. A lot are raised in my area, however, and we are trying very hard to produce food. And I do not need to be apologetic about it because my State produced 10 percent of the food of the Nation during the war.

Secretary HARRIMAN. I think your State deserves a tremendous credit, and so do the farmers of this country, for the production of food during the war and following the war. I do not know where the world would be today if it were not for the food production of your State and other farm States.

Mr. TALLE. In spite of shortage of labor, lack of farm machinery, they have made that record. Now, they are saying, "What goes on in Washington? We know the pipe exists. The Government says so. It is at Yonkers, N. Y., but we cannot get any of it."

Now, I submit, Mr. Secretary, that my people have a right to be a little hesitant when the Government comes out asking for controls which would seem to be so rigid that our economy would be tied up hand and foot.

Secretary HARRIMAN. Well, Mr. Congressman, I explained this morning why we would hope to break bottlenecks. We cannot hope to break them all, but one of the areas which should receive attention is getting the maximum production of agricultural machinery. I am frank to say I cannot speak for War Assets Administration.

Mr. TALLE. I am not holding you responsible, Mr. Secretary.

Secretary HARRIMAN. I do believe they are operating under most difficult conditions.

Mr. TALLE. I merely offer that as an illustration of what occurs when supplies get into the hands of a Government agency, and I was promised solemnly on Friday that I would have word not later than early this morning. In view of the game on Saturday, I did not blame them for not wanting to report the next day. But here I am. I left a note in my office that I should be notified if I got word from New York. It is now 2:45 p. m., and I still have no word. So I submit once more that my people cannot be blamed if they are just a little leery about additional controls.

Secretary HARRIMAN. I stated in my testimony that I do not like controls any more than any other man does, but we have been successful in handling the tin situation, and I think we can be successful—as was done by the War Production Board, which had much more difficulty at that time—in breaking bottlenecks and getting more production to the industries which need the materials to supply the farmer with what he needs. I do believe the farmer would get more of what he wanted if these authorities were granted.

Mr. TALLE. I will be grateful to you, Mr. Secretary, and your entire Department and to this committee, the entire Congress, and the public in general, if I can get some help to pry that pipe loose from Yonkers, N. Y. This is a real bottleneck.

Secretary HARRIMAN. Our job is to help businessmen. If you want us to undertake to try to help you in this case, we will see what we can do.

Mr. TALLE. Thank you.

Secretary HARRIMAN. Perhaps you can let me have a little memorandum and the particulars of the case, and we will see if we can have someone chase it down for you.

Mr. TALLE. I will be very glad to do so. Thank you.

Secretary HARRIMAN. Mr. Chairman, I have part of the answer on the Russian statistics about which you spoke this morning. So far this year we have received from the Soviet Union $6,200,000 worth of chrome ore and 5½ million dollars of manganese ore.

One-third of the manganese and one-half of the chrome ore, and more than half of the platinum imported into the United States this year has come from the Soviet Union. That is in answer to one of the questions which was asked this morning.

The CHAIRMAN. Thank you.

I announced when we began that the Secretary had to leave by 10 minutes to 3. Would it be convenient for you to come back Wednesday, Mr. Secretary?

Secretary HARRIMAN. Whatever day you say, Mr. Chairman. Wednesday or Thursday, whichever would be preferable. Thursday would be a little better for me.

The CHAIRMAN. Very well. Thursday morning at 10 o'clock.

There being no further witnesses at this time we will stand in recess until 10 o'clock tomorrow morning at which time we will hear from Secretary of Labor Schwellenbach.

(Whereupon the committee recessed, to reconvene at 10 a. m., Tuesday, December 2, 1947.)

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The CHAIRMAN. Thank you.

I understand from the Secretary that [illegible] minutes to go. Would it be convenient for you to come back Wednesday, Mr. Secretary?

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ECONOMIC STABILIZATION AIDS

TUESDAY, DECEMBER 2, 1947

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 a. m.

Present: Mr. Jesse P. Wolcott (chairman) presiding, and Messrs. Gamble, Smith, Kunkel, Talle, Sundstrom, McMillen, Kilburn, Buffett, Cole, Hull, Scott, Banta, Fletcher, Foote, Spence, Brown, Patman, Folger, Hays, Riley, Buchanan, and Boggs.

The Chairman. The committee will come to order.

We have with us this morning Secretary of Labor Schwellenbach, and we will continue the study of the President's recommendations for a program against inflation.

The Secretary has a prepared statement. If it is agreeable to the members of the committee, the Secretary may proceed with the reading of his prepared statement, after which he will submit himself to interrogation.

STATEMENT OF LEWIS B. SCHWELLENBACH, SECRETARY OF LABOR

Secretary Schwellenbach. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I welcome the opportunity to present to this committee my views on the proposals of the President in his address to the Congress on November 17, 1947, recommending a program to curb inflation in the United States.

At the outset of my testimony, I should like to emphasize that the President's anti-inflation program consists of 10 points. In my testimony today I shall discuss only the tenth point which recommended legislative action—

> to authorize price ceilings on products in short supply which basically affect the cost of living or industrial production, and to authorize such wage ceilings as are essential to maintain the necessary price ceilings.

In limiting my testimony to the wage-control aspects of the tenth point, however, I do not wish to imply that the other nine points are not necessary. It is merely that, as has been the case with other Cabinet officers, I am limiting, insofar as possible, a discussion of the first nine points.

The United States economy is now in the midst of the second wave of inflation that began shortly after the end of the war. The first wave began in the first quarter of 1946, when controls were progressively relaxed, and proceeded with great vigor through the period of price

decontrol in the summer and fall of 1946. In this wave prices rose very sharply. By the end of 1946 wholesale prices were 31 percent higher; and the prices of goods and services to consumers 18 percent higher than at the beginning of the year.

Though the increase in living costs worked many hardships, especially on people of low or fixed incomes, it was argued that this was the inevitable result of decontrol and that higher prices would provide an incentive to greater production which, in turn, would lower prices when supply overtook demand.

Production did, in fact, increase very rapidly, and is now higher than ever before in peacetime. At the same time national income rose steadily. The results have been unprecedented levels of demand and consumption by the American people, who are now producing and consuming more than ever before.

For a time, in the early months of 1947, it appeared that increased production would soon catch up with demand, in most lines, at any rate, and that prices, if they did not come down, would at least become stabilized at the levels then prevailing. Even with domestic demand at unprecedented levels and exports higher than they had ever been, we seemed nearer to a stable economy during the spring of 1947 than at any time during the preceding year.

The prospect of maintaining stability was shattered in mid-1947 by several events—which greatly influenced prices.

First, the extensive damage to the American corn crop, coinciding with crop failures in Europe and Asia, in the face of heavy demand, immediately touched off speculative price increases that affected not only corn but all other grains and cereals, livestock and dairy products as well. These price increases, more than any other influence, have sent food prices to the record levels where they are now.

In the industrial economy, the increases in the prices of coal and steel have been very influential in the general price rise. Following the wage increase in coal, which added—on the average—about 50 cents per ton to coal costs, coal prices increased more than $1 at wholesale levels, even before the increase in freight rates. At about the same time steel prices were raised, primarily because of the extreme shortage of scrap steel which sent prices to extraordinary heights.

As a result of the fear engendered by these price rises inventory stocks were largely increased, which resulted in a slowing down of the normal flow of goods into the market.

These events during the summer have touched off a new wave of price increases which have pushed the cost of living higher than at any time in our history and have brought the wholesale price level within about 5 percent of the all-time high of 1920.

The increases in living costs have been particularly serious. Just since May 1947 the Consumers' Price Index of the Bureau of Labor Statistics has risen by 5 percent. Furthermore, the increases have been greatest in those very items of daily expenditure which affect all families—foods and rents. Food prices have risen by 8½ percent, and rents, after the relaxation of the rent controls in July, rose 4 percent in 3 months.

The prices of meats, eggs, dairy products, and cereal products—the mainstays of the American diet—have been most alarming.

Between May and September meats rose 21 percent and dairy products 14 percent. Between mid-June and mid-September pork

prices rose 15 percent, beef and veal 11 percent, and lamb 8 percent. Only the unusually, and temporarily, heavy slaughtering of this fall checked the rise in meat prices.

During the summer and early fall the price of eggs advanced seasonally by 29 percent, and storage stocks, greatly depleted, were less than half of normal. Butter prices rose 30 percent, bringing the average price by early fall to 92 cents a pound.

On top of this, in October, there was a Nation-wide wave of increases of 1 to 2 cents a loaf in the price of bread—equivalent to 10 to 15 percent.

It is true that there were a number of declines, either from seasonal influences or because of improved supplies, for example, canned goods, vegetable shortening, potatoes, and oranges; but most of the declines were less than the seasonal expectations.

As a consequence, the average city housewife who goes to buy food today must take nearly $21 to buy what $10 bought in 1939 and what less than $15 bought on VJ-day. Even as recently as 18 months ago the same food could have been bought for $15.

Certainly the farmers are not to be blamed for the increase in the cost of food. They had no control over the weather, either in our Corn Belt or in the grain-growing belts in the rest of the world. Nor can they, even if they all joined up to try, stop the rises in prices which come from the commodity market speculation.

It is important to remember also that the burden of such large increases in food prices falls heaviest on those sections of our population who are least able to bear it. The low-income groups—whether the families of the low-paid wage earners, or veterans and pensioners on small fixed allowances, or low-paid clerical workers—always spend a very large proportion of their incomes on food. When the price of bread increases, they have to pay it. When the prices of milk and meat and butter increase, they and their children simply consume less of these essential foods. This is nowhere more clearly seen than in the consumption of fluid milk, which has declined by 10 percent per capita since 1945 in the face of a price increase of almost 25 percent.

Nor can we be sure, in the absence of positive action as proposed by the President, that prices will level off—much less decline—next year.

The outlook for food, as the Secretary of Agriculture has testified, is for rather shorter supplies and higher prices of grains and related livestock products next year than this. As long as American incomes remain high, and foreign demands for grain continue, there will be upward pressures on the prices of cereals, meats, and dairy products. And if we should have a poor crop year in 1948, the effect on farm and food prices could be explosive.

Meanwhile, nonagricultural prices continue to creep up month by month. The same speculation that has driven up grain and livestock prices has been at work on hides, raw cotton, scrap steel, and other basic raw materials. These are quickly reflected by rising prices of finished goods.

There is no major segment of the price structure in which we can confidently expect declines in the near future. It is not alarmist, but sober fact to say that only action by the Government, at certain key points in the economy where supplies cannot quickly be increased, can

prevent further substantial increases in prices and living costs. This action should be directed at selected commodities and specific price situations.

Rents, which have been rising about 1 percent a month, will rise much faster after February, unless rent control is extended. Up to June 1947, just before the amended Rent Control Act went into effect, there had been an over-all increase in rents charged for homes and apartments in American cities of nearly 5 percent from August 1939.

With the amendment of the Rent Control Act, rents began to rise and by September had advanced by another 4 percent from their June levels, making the total over-all increases from 1939 almost 9 percent. If there were a 15 percent increase in rents across the board, it is estimated that it would raise the consumers' price index of the Bureau of Labor Statistics by about 2 percent. This relatively small effect is due to the fact that prices of food have increased so much more than rents that food has now become a much more important proportion of family living costs.

The shortage of housing for rent is so great that it is evident to all of us, I am sure, that if controls are removed rents will increase by large amounts and very rapidly.

There has been much controversy over the relationship between rising wages and rising prices, particularly since VJ-day. The fact is that wage rates, between VJ-day and the middle of 1946, rose faster than prices. On the other hand, weekly earnings of factory workers, which dropped so sharply after the reduction of working hours at the end of the war, had scarcely more than regained, by the middle of 1946, what they lost at VJ-day.

During the war and postwar periods profits have been ample, and there is no doubt that for the last 18 months prices—and profits—have risen consistently faster than wages. Wage increases, since the middle of 1946, have been in pursuit of a rising cost of living; and real wages have not regained what they lost in the decontrol period.

The general level of prices has risen much faster and much further than can be explained by increased wage costs. It is true that in some industries, especially those in which labor costs are a large fraction of total costs, wage increases have contributed directly to increased prices. On the other hand, even in such industries, prices in many cases have risen by more than the amount of the increased wage and material costs.

Furthermore, some of the most spectacular price increases have occurred in those commodities in which wages are a minor factor in direct costs, such as grains, livestock, hides, raw cotton, scrap steel. If prices had risen by no more than the amount necessary to cover increased wage costs, even leaving profits undiminished, the price level would be very much lower than it is now. And, conversely, if wages had not risen at all since the middle of 1946, there is little doubt that the price level would have risen substantially, though less than it has.

Wage increases have been one—but by no means the only one—of the additions to current purchasing power which have provided fuel for the inflationary fire. Increased incomes of farmers have been another. Increased profits have been still another.

The problem that confronts us now is to enact legislation which will stop the present price rise and will reduce the price level so as to make demands for a compensating third round of wage increases unnecessary.

If we are successful in checking the upward movement of prices and in lowering the costs of common foods, we shall have a basis for calling on labor voluntarily to withhold demands for further wage increases—at least temporarily—while we, as a nation, try to achieve a basis of stability.

Labor has a vital stake in this endeavor. Inflation hits first at the living standards of the workingman, and the success of the President's program is indispensable to labor's welfare.

The price increases of the last 2 years have brought home more clearly than ever before the futility of wage increases that are followed by price rises. It is my belief that labor will cooperate in this effort if given some real assurances that price rises will be checked. But I have little hope that organized labor will be able to keep from asking for sizable wage increases if such assurances are not given.

There are already pressures for a third wage round, based upon the price increases of the last 4 months and the fear that prices will continue their upward trend. Once a few key wage increases are sought and obtained in a few basic organized industries, there is little likelihood of keeping them from spreading and assuming the proportions of a full third round.

It is of first importance, therefore, that we have labor's full cooperation at the outset of this program. Labor cannot reasonably be asked, however, to bear a solitary burden in the anti-inflation effort, although it very properly should be asked to contribute its full share and to refrain from action which would upset the economy. The full variety of efforts which the President has outlined is necessary to provide the assurances which labor will require.

The pressure for a third round of wage increases can be offset in only one way; by prompt and firm action to reduce the cost of living, and particularly the cost of food, and to restrain further increases in other prices. It is essential that we check the rise in rents and that we bring down the price of common foods.

The President's program is designed to provide the means for doing this, on the one hand by lessening the general inflationary pressures through control of credit and the maintenance of high Government revenues; and, on the other hand, by direct Government action at those points in the price structure where it is required to bring prices down in the absence of adequate supplies.

Avoidance of further substantial general wage increases does not mean that we should freeze wages and salaries or deny increases to those groups who are the victims of well-recognized inequities in the wage structure. There are some disadvantaged groups in both private and public employment whose wages or salaries need to rise in order to provide them with the same real standard of living that they had before the war. Wages are still very low in many trade and service industries not subject to the Fair Labor Standards Act and in many branches of public employment. The employees of the Federal Government, whose pay has risen since the beginning of the war be only about half as much as the cost of living, are another example.

In general, any attempt to hold wages while we act to restrain and reduce prices must necessarily come by the voluntary and cooperative action of labor and management. This does not, as I have said, preclude adjustments to correct inequities. Nor does it preclude moderate

prevent further substantial increases in prices and living costs. This action should be directed at selected commodities and specific price situations.

Rents, which have been rising about 1 percent a month, will rise much faster after February, unless rent control is extended. Up to June 1947, just before the amended Rent Control Act went into effect, there had been an over-all increase in rents charged for homes and apartments in American cities of nearly 5 percent from August 1939.

With the amendment of the Rent Control Act, rents began to rise and by September had advanced by another 4 percent from their June levels, making the total over-all increases from 1939 almost 9 percent. If there were a 15 percent increase in rents across the board, it is estimated that it would raise the consumers' price index of the Bureau of Labor Statistics by about 2 percent. This relatively small effect is due to the fact that prices of food have increased so much more than rents that food has now become a much more important proportion of family living costs.

The shortage of housing for rent is so great that it is evident to all of us, I am sure, that if controls are removed rents will increase by large amounts and very rapidly.

There has been much controversy over the relationship between rising wages and rising prices, particularly since VJ-day. The fact is that wage rates, between VJ-day and the middle of 1946, rose faster than prices. On the other hand, weekly earnings of factory workers, which dropped so sharply after the reduction of working hours at the end of the war, had scarcely more than regained, by the middle of 1946, what they lost at VJ-day.

During the war and postwar periods profits have been ample, and there is no doubt that for the last 18 months prices—and profits—have risen consistently faster than wages. Wage increases, since the middle of 1946, have been in pursuit of a rising cost of living; and real wages have not regained what they lost in the decontrol period.

The general level of prices has risen much faster and much further than can be explained by increased wage costs. It is true that in some industries, especially those in which labor costs are a large fraction of total costs, wage increases have contributed directly to increased prices. On the other hand, even in such industries, prices in many cases have risen by more than the amount of the increased wage and material costs.

Furthermore, some of the most spectacular price increases have occurred in those commodities in which wages are a minor factor in direct costs, such as grains, livestock, hides, raw cotton, scrap steel. If prices had risen by no more than the amount necessary to cover increased wage costs, even leaving profits undiminished, the price level would be very much lower than it is now. And, conversely, if wages had not risen at all since the middle of 1946, there is little doubt that the price level would have risen substantially, though less than it has.

Wage increases have been one—but by no means the only one—of the additions to current purchasing power which have provided fuel for the inflationary fire. Increased incomes of farmers have been another. Increased profits have been still another.

The problem that confronts us now is to enact legislation which will stop the present price rise and will reduce the price level so as to make demands for a compensating third round of wage increases unnecessary.

If we are successful in checking the upward movement of prices and in lowering the costs of common foods, we shall have a basis for calling on labor voluntarily to withhold demands for further wage increases—at least temporarily—while we, as a nation, try to achieve a basis of stability.

Labor has a vital stake in this endeavor. Inflation hits first at the living standards of the workingman, and the success of the President's program is indispensable to labor's welfare.

The price increases of the last 2 years have brought home more clearly than ever before the futility of wage increases that are followed by price rises. It is my belief that labor will cooperate in this effort if given some real assurances that price rises will be checked. But I have little hope that organized labor will be able to keep from asking for sizable wage increases if such assurances are not given.

There are already pressures for a third wage round, based upon the price increases of the last 4 months and the fear that prices will continue their upward trend. Once a few key wage increases are sought and obtained in a few basic organized industries, there is little likelihood of keeping them from spreading and assuming the proportions of a full third round.

It is of first importance, therefore, that we have labor's full cooperation at the outset of this program. Labor cannot reasonably be asked, however, to bear a solitary burden in the anti-inflation effort, although it very properly should be asked to contribute its full share and to refrain from action which would upset the economy. The full variety of efforts which the President has outlined is necessary to provide the assurances which labor will require.

The pressure for a third round of wage increases can be offset in only one way; by prompt and firm action to reduce the cost of living, and particularly the cost of food, and to restrain further increases in other prices. It is essential that we check the rise in rents and that we bring down the price of common foods.

The President's program is designed to provide the means for doing this, on the one hand by lessening the general inflationary pressures through control of credit and the maintenance of high Government revenues; and, on the other hand, by direct Government action at those points in the price structure where it is required to bring prices down in the absence of adequate supplies.

Avoidance of further substantial general wage increases does not mean that we should freeze wages and salaries or deny increases to those groups who are the victims of well-recognized inequities in the wage structure. There are some disadvantaged groups in both private and public employment whose wages or salaries need to rise in order to provide them with the same real standard of living that they had before the war. Wages are still very low in many trade and service industries not subject to the Fair Labor Standards Act and in many branches of public employment. The employees of the Federal Government, whose pay has risen since the beginning of the war by only about half as much as the cost of living, are another example.

In general, any attempt to hold wages while we act to restrain and reduce prices must necessarily come by the voluntary and cooperative action of labor and management. This does not, as I have said, preclude adjustments to correct inequities. Nor does it preclude moderate

adjustments which are clearly understood by management and labor to be made within the structure of existing prices: I believe that there are some situations where this may today be possible. Neither does it preclude the many kinds of agreements which labor and management may reach to pay increased earnings on increased production, or otherwise to adjust wages in ways that will not result in increased prices.

In fact, one of our objectives during this period should be to increase output by every available means. Our production record in the last year has been aided by a notable reduction of major labor disputes. This record should be continued and improved by encouraging the peaceful settlement of disputes and the adoption of sound industrial relations practices which will minimize sporadic interruptions of work.

Production increases will have positive effects in relieving inflationary pressures as well as in permitting the kinds of wage increases which do not create price pressures. This will require labor and management cooperation of a very high order. My Department, wherever it can do so in connection with its established program, will be glad to offer its good offices in fostering this kind of cooperation.

It is my belief that the stabilization of our economy in such a way as to avoid further price spirals and as an essential part of the total program, can be achieved through voluntary restraint if the other parts of the program are carried forward. Even if it is decided to control prices of certain industrial products, directly rather than through allocations, I am of the belief that it may well be possible through voluntary action, assuming that the cost of living is held, to insure that wage costs are kept in line with the controlled prices in the same product lines. This will require constant and careful watching of wage developments, both in the industries where prices are controlled and in the key industries where Nation-wide wage movements begin.

It is my recommendation that, as the counterpart to such machinery as might be established to deal with price questions, there be established in the Department of Labor a wage board to watch and report on the course of companion wage questions. This board might be composed of Government officials, of public members, or might well be tripartite and include representatives of labor, management, and the public.

Such a board would also be of direct use to management and labor who are trying, on a voluntary basis, to maintain price-wage stability. Such a board should be within the Department but should have the same independence that the Wage Stabilization Board had when it was in the Department.

There may be a handful of critical situations within the price-control industries where questions of wages will become crucial factors that cannot be dealt with by voluntary action alone. It is for this reason that the President has proposed authority to impose "such wage ceilings as are necessary to maintain the necessary price ceilings." This standard defines the area where controls may be necessary, and at the outset restricts their application to a very small segment of the economy.

In view of the highly selective nature of the price controls proposed, and the fact that many of them will affect agricultural prices, it is unlikely that the need for wage controls would arise in more than a

very few cases. Before compulsory authority is invoked, however, every effort should be made to exhaust voluntary methods.

One of the functions of the board I have mentioned would be to avoid the imposition of controls by the exercise of foresight. Where it appears that controls might eventually be necessary, and long before they appear to be imminent, it would be the function of the board to take or propose measures to head them off.

Even where wage controls have to be used as a companion to price controls, this would not necessarily mean a wage freeze. Here, again, there is room for adjustment of inequities in the process of establishing both wage and price levels.

Any action that is likely to be taken in controlling wages—in the few cases that can be envisaged at this time—would have to be taken on a case by case basis. For this reason, it is neither essential nor possible to plan in detail the kind of administrative machinery that will be needed.

It may be that the wage board which I have mentioned would be a suitable body to entrust with the administration of any necessary controls. It may well be, however, that the few cases which arise will each be so unique that it will be best to handle them by special means, such as the creation of individual wage boards or wage-price boards whose function it would be to achieve settlements or to make recommendations. Even in these cases, voluntary action will play an important role, since there has been no request for authority to order wage settlements in the absence of labor-management agreement.

I have given my views concerning the accelerated use of voluntary methods to maintain a proper price-wage relationship in the anti-inflation program. I have also discussed the need for authority for the imposition of wage controls which are essential to maintain price ceilings which may be placed in effect. I am hopeful that in this field the use of voluntary methods may be a sufficient answer. The urgency of the situation, however, is such that I believe authority should be granted to take positive action if such controls should be necessary.

The CHAIRMAN. Thank you, Mr. Secretary.

We may assume from your statement that you are asking for authority to selectively control wages, if it is found necessary to effectuate price controls, I take it.

Secretary SCHWELLENBACH. Yes; that is correct.

The CHAIRMAN. Have you in mind at the present time any particular industry where you would use this authority immediately the power was given to you to do so—and when I say "you" I mean the present administration?

Secretary SCHWELLENBACH. No; I have not. The first effort, if this is to succeed, must be voluntary. In order for voluntary methods to succeed, it is necessary that the first nine points be used. I do not know just how long it would be before those first nine points would prove either their effectiveness or ineffectiveness. But when the time comes when we are going to make use of the device which is referred to in the tenth point, conditions in any particular industry may have changed to such an extent that I do not think it is possible for anyone today to attempt to say that it should be used in this industry, or in that industry, or with reference to this product or that product, be-

cause conditions change very rapidly in the price structure. Prices go up and come down.

The primary purpose of this is to control inflation, to keep prices either at a stable level or to bring them down.

I do not think anybody can say just which commodities or industries would be affected. I cannot even say when the time will come when we should put these into effect. I think it is necessary to have the power to put them into effect for the purpose of letting people know that there is such a power when they are discussing their voluntary methods of arranging for prices and wages.

The CHAIRMAN. You do not have in mind any immediate use to which you would put these controls if you were given the controls at this time?

Secretary SCHWELLENBACH. No, I do not think they should be used now. The first nine points provide a great variety of methods by which prices can be controlled or helped downward. I think those should be used first, to see their effectiveness, before the actual use of the power we are asking for in the tenth point is made.

The CHAIRMAN. What would be the possible psychological effect on labor from the imposition of the power to control wages? What would be the immediate reaction of labor to that?

Secretary SCHWELLENBACH. I would assume that organized labor would not like the imposition of wage controls.

The CHAIRMAN. I notice that in the releases by the Congress of Industrial Organizations, they wholeheartedly endorse all phases of the President's program with the exception of wage control. I wondered if you had had an opportunity to get their reaction to what effect, if any, the reimposition of the power to control wages might have upon production methods.

Secretary SCHWELLENBACH. No, I have not, and I do not say this in any cryptic mood or critical mood at all. I do not want any implication drawn from it. But when we have legislation before the Congress which directly affects the situation with reference to the labor organizations of the country, ordinarily I go and discuss it with them. I think that is part of my function as Secretary of Labor, to talk the thing over with them.

However, in this case, the newspaper releases came out before I had an opportunity to discuss the matter with them, so I have not done so.

The CHAIRMAN. There seems to be quite general agreement that there is relation between export demands and prices. What, generally, should be the attitude toward wage increases in those industries which are vitally affected by an increase in foreign demand? Perhaps I have not made myself clear.

Let us consider steel, for example. It is very obvious that we are exporting, this year, in dollar value, almost twice as much steel as was exported last year. That is why I say that it is generally recognized that the foreign demand for a commodity—taking steel as an example—has had a direct influence on the price of such commodity. Now, if the price of steel remains high or threatens to go still higher as a consequence of foreign demand, then, what should be our attitude toward an increase in production costs for steel—particularly labor costs? The point is, should we keep wages where

they are in the steel industry? Should we let them follow the price rises incident to this heavy demand abroad?

Secretary SCHWELLENBACH. I think, Mr. Chairman, that you and every member of the committee realize that in reaching a conclusion on questions of this kind, it is necessary to accept the advice of the particular bureau within the Department, or the particular organization within Government, which is trained to study problems of that nature.

In the report of the Economic Council, which was released a short time ago, there was no indication that foreign shipments had more than a psychological effect upon prices.

I have asked that a study be made—and it has been made—by the Bureau of Labor Statistics, with reference to the present situation—this so-called stopgap aid program and it is the belief of the Bureau that those shipments that would be made under that program—assuming the entire amount was appropriated—have been discounted in the market and that they would not result in any appreciable increase in prices. Does that answer your question, Mr. Chairman?

The CHAIRMAN. Perhaps partially. The point is we started out, when the Little Steel formula was announced.

Secretary SCHWELLENBACH. The Little Steel formula came in during the war, while I was enjoying a very comfortable position on the bench.

The CHAIRMAN. 1944?

Secretary SCHWELLENBACH. No, 1942. But the postwar wage-price settlement in steel was in 1946.

The CHAIRMAN. As I understand the Little Steel formula, it provided that the price of steel—which was then under price control—could be increased to offset an increase in wages in the steel industry.

At that time we embarked upon a thory that we should increase maximum prices, under price control, to offset increases in production costs due to increased wages and salaries. Under that formula, it seemed to be the policy of the Government, while we were under price control to let prices rise to absorb production costs. That is correct, is it not, Mr. Secretary?

Secretary SCHWELLENBACH. I think that is right. My information on that last point during the war period comes from reading about it, and also just the ordinary information that an ordinary citizen would have from reading the newspapers, but that is my understanding.

The CHAIRMAN. That was the result of a failure of the negotiations between labor and industry to agree upon wages, was it not?

Secretary SCHWELLENBACH. I do not think it was so much a failure to agree upon wages as it was a failure to agree upon the relationship between the wage problem and the price problem.

The CHAIRMAN. As I recall it, labor at that time said that the industries could absorb the increased wages out of profits. Industry said they could not. And the negotiations centered pretty much on whether industry could or could not absorb the increased wages out of profits. Now, what may we expect in the future with respect to voluntary programs aimed at keeping prices down in those industries where the price would rise naturally and normally in consequence of increased labor costs? Do you think that if the price of steel, for

example, increased materially because of foreign demand, and labor in the steel industry insisted upon a certain percentagewise increase in wage rates, that the steel industry and steel labor would have any more success in negotiating that question than they did have before the Little Steel formula was adopted?

Secretary SCHWELLENBACH. If you are just talking about steel and the relationship between the steel companies and the steel workers, I think that they would have—I do not think that that is particularly controlling upon the question which you really asked, but I do think that they would have better opportunity because of their relationship now than they did have at that time.

But there must be kept in mind this fact: That consistently throughout the period since the war an effort has been made to place the full responsibility for any price increases upon wage increases, and that simply is not true.

In October, up in New York—in the New York milkshed—there was a wage increase allowed, by negotiation, of $8.50 a month to the employees of dairies. That wage increase amounted to about 0.58 cent per quart of milk. The question the dairies were up against was whether or not they would absorb part of that 0.58 cent or raise the price by 1 cent a quart. In that milkshed, they raise prices only by half a cent, 1 cent, or a cent and a half. They cannot raise them three-quarters of a cent, or one-quarter of a cent or 30 percent of a cent. They took the 1-cent increase, despite the fact that only eight one-hundredths of the increase was justified over and above the half-cent mark. They then sent around to every consumer in the New York milkshed, with their bottle of milk, the next day, a statement that because wages had been increased, it was necessary for them to increase the price.

Now, I am not criticizing them for increasing the price by 1 cent. I do not know what their situation was. Maybe they were justified by other factors. But I do say that they certainly were not justified in telling the people of New York City that because of a wage increase, which amounted to 0.58 of 1 cent increase, they were forced to raise the price by 1 cent; 0.42 of a cent either went for additional profits or it went for additional other things besides the wage increase, and they had no business telling the people of New York that because they had had an increase in wages that increase alone was the cause of the 1 cent rise in the price of milk. And until we get some understanding upon that sort of a proposition, that will occur.

Take the coal situation, for example. The average increase in the cost of a ton of coal because of the last wage increase was 50 cents. There was a lot of talk about it being $1.63 and a lot of other things, but, as it has worked out, it is 50 cents. Yet they increased the price of coal more than a dollar and blamed it all upon the wage increase.

I do not mind them raising their price, but I do say the public ought to know what really is behind these price increases.

The CHAIRMAN. Is not what you have told us a pretty fair example of the controversies which are constantly arising between management and labor, and has it not emphasized the relationship between wages and prices?

Secretary SCHWELLENBACH. No, Mr. Chairman, I have never seen any wage negotiations in which the question of the publicity that was to be given afterward was——

The CHAIRMAN. Well, then, my point is that because of the example which you used in this milkshed, where they raised the price of milk 1 cent, when, if they were merely to offset the increase in cost of production incident to the wage raise, they would have been justified perhaps in raising the price one-half cent and aborbing the other eight-one hundredths—that situation perhaps made labor in that industry very unhappy, and perhaps renewed a desire on their part to get higher wages. Aside from whether industry was entitled to it or not, I am just bringing out the fact that we always have with us controversies of that nature between labor and management. The point is that if the increase in production costs due to increased labor costs are not offset by price increases, if prices were under control, then what would be the natural effect upon production of that commodity? Do you get my point? What attitude naturally does business take if the prices are not increased sufficiently to offset increased production costs, provided, of course, they were making a reasonable and fair profit before the increase in labor costs? Is it not an influence against maximum production?

Secretary SCHWELLENBACH. I have not seen, since January 1946, such an attitude upon the part of industry. During the last half of 1945 there was such an attitude because of the fact that the excess-profits tax was repealed effective January 1, 1946, and they wanted to delay their production until the 1st of January because——

The CHAIRMAN. Well, did you not start seeing it more toward the middle of 1946, after the President had removed some of the controls on prices thereby giving encouragement to the expansion of plants and encouragement to produce because there was no price restriction on what they could get for the products of their industries? Did not our production effort start to increase materially when and only when adjustments were made in the price structure, either by increasing maximum prices caused by increased production costs or by removing price controls altogether?

Secretary SCHWELLENBACH. I do not think you can divide the year 1946 up with relation to production.

The CHAIRMAN. Well, I divided the year 1946 for the reason that there was no question about the fact that we were under price control until about July 1946, when the controversy came up, as you will recall, about retaining price controls. At that time we continued price controls in a bill which would have, we thought, urged maximum production, and at the same time keeping prices from going unreasonably high. The President vetoed that bill, and then he sent up another bill which many of us repudiated because we saw in it production control and not price control, and in the fall—in September of 1946—removed most of the controls, and in the latter part of November 1946, he removed almost all the remaining controls, and since then our production has increased so rapidly that we are producing, in the aggregate, more than we have ever produced before. Is that not correct?

Secretary SCHWELLENBACH. Yes; we are producing more. But let me say this, Mr. Chairman: I am not here on the basis of any argument as to who took away price control.

The CHAIRMAN. No. I merely bring it out, Mr. Secretary, as evidence of the fact that we are in this dilemma: When we took off price controls, and in consequence of taking off price controls, we have

gotten perhaps the highest production this country has ever experienced.

Now we are in this quandary with respect to the President's suggestion. What are we going to do in this country if we put controls back on, or what influence will the existence of the power to reimpose controls have on production?

Secretary SCHWELLENBACH. I do not think you can find the answer to that question, Mr. Chairman, in the year 1946 for the simple reason that for nearly a month the steel industry was closed down; for practically 2 months the coal industry was closed down; from November 21, 1945, until some time in March 1946, the manufacture of automobiles by General Motors Corp. was closed down, and I do not think that, having those factors in existence during the first 6 months of 1946, you can say or that anybody can say that it was because of the effect of decontrol on prices, because you had these other factors which you just cannot overlook. I would like to forget about them myself, because they have caused me a lot of headaches, but I cannot forget them.

The CHAIRMAN. We all would like to forget what happened generally in the last 6 months of 1946, other than certain phases of it.

We are going to be told that these powers are going to be applied selectively—the power to allocate, the power to exercise priorities, the power to control prices and the power to control wages. And you say: "In those fields we are going to be very careful about the use to which we put the powers; we are going to use the powers selectively."

We might assume from that that if prices of any commodity, or of any industry, are rising unreasonably—according to a certain somebody's standard—and if that, according to somebody's judgment, is an essential commodity we are going to put price controls on it.

What I am trying to find out is this: Would it necessarily follow—and because we have centered our discussion largely on steel I will use that as an example—would it necessarily follow that with price controls on steel—that is, a selective item—you would put wage controls on steel?

Secretary SCHWELLENBACH. Well, just at present there is not a very close relationship between the price of steel and the wages being paid in the steel industry. Scrap steel is the element which was primarily responsible for the last increase in steel prices. Scrap steel has been between $35 and $45 a ton for a considerable length of time. I remember, back in 1937, when the price of scrap steel was $8 a ton. That is the primary factor, insofar as steel is concerned, and, as of the present day, I do not think there is anything that could be done in reference to steel, either through price controls or wage controls——

The CHAIRMAN. What would be the effect of putting a maximum price on steel without putting a maximum price on scrap, if that is the reason why we are having high prices in steel?

Secretary SCHWELLENBACH. Well, just one——

The CHAIRMAN. Would you not stop production until the price of scrap steel naturally went down by reason of the fact that the steel industry was not using scrap until the price of scrap steel went down? Does that not naturally follow?

Secretary SCHWELLENBACH. Of course it is extremely difficult to control the price of scrap steel at the place where it is gathered or at

the point where it reaches the steel mill. It is a expensive sort of an article.

The CHAIRMAN. Would you control the price of steel by putting maximum prices back on steel at the distribution point?

Secretary SCHWELLENBACH. Not at the present time, I do not think, because there is involved in this proposal a relationship between the wages and the price of steel.

The CHAIRMAN. Well, the point is: Why are you asking for the authority at the present time to put price controls back on steel, which has been used here as an example of a basic commodity which is in short supply and which affects our cost of living index? What effect would the power given to you to put price controls back on steel have on steel production? That is our problem. The steel industry have no inventory, so we cannot control it by inventory controls.

Secretary SCHWELLENBACH. I know what your problem is, and I faced it, argued it out, I believe. My answer to it is this: It is true, we are asking for the power to go all around the clock upon the question of power to control prices or wages. And I can see very well why the Congress will hesitate to give that complete power. But we ask for a brake on that power which I think the Congress can write into the law in such a way that you will not be worried about it.

I talked about a clock. We cannot stop that clock at 3 o'clock in the afternoon unless certain conditions exist, and those conditions must be standards which the Congress will write into the law. And it is my belief that Congress should write them into the law upon the basis of the Schester case, the "hot oil" cases and those cases which held unconstitutional certain laws because there was an improper delegation of legislative authority.

I think it is possible to write into that law certain standards which tell us when we can stop at 3 o'clock and look into the situation as it exists at that time, or we can stop at another point on this clock. Or, in other words, when we can go to an industry and say: "Now, here, we want you to agree with us that you will control your prices, and we want the union to agree that they will desist from making any wage demands except for those that are the natural consequence of some inequities."

The CHAIRMAN. Can you not do that now?

Secretary SCHWELLENBACH. Yes; we can do that now. The President can do it. He did it several months ago, on the question of prices, but if he has the power ultimately to tell them that they must not increase their prices his opportunities of having an effective argument with them are much greater.

I think it is possible to write legislation which will set up the standards in such a way that he cannot, or I cannot, or any other member of the Cabinet cannot, abuse that power.

The CHAIRMAN. You want this power so that you can go to industry and say, "Here, if you do not agree to maintain prices as they are, or if you do not agree not to increase them, then we might put maximum prices on your commodity." That is what I am getting at. What effect would that threat to reduce prices have on the production effort? Surely there is no inducement, under a threat of having price control back, to build up new inventories, perhaps not even for normal production.

Secretary SCHWELLENBACH. As far as I am concerned, I did not understand that there was to be a roll-back in inventories.

The CHAIRMAN. It is no roll-back in inventories; it is a roll-back in prices and the possible effect of a roll-back in prices upon the over-all production effort. Almost every business, if it is on a sound basis, likes to build up reasonable inventories.

Secretary SCHWELLENBACH. Yes.

The CHAIRMAN. One of the things which is causing our dilemma today is that because during the war, of course, we could not build up inventories to meet the unusual demand. All sound businesses like to build up reasonable inventories. It is good, sound business practice.

Secretary SCHWELLENBACH. I think they have gotten them a little too large, but it is their business and I will not attempt to tell them how to run it.

The CHAIRMAN. That is a just a matter of adjustment.

Secretary SCHWELLENBACH. Yes.

The CHAIRMAN. It is a good thing for almost all business, if it can, to build up inventories, and it does so.

Now, the point is that if the President calls in an industry and says, "If you do not behave yourself, we are going to put you under price control," then there is no incentive for that business to produce to capacity against the time when they will have to reduce their prices perhaps down below production costs, which happened under price control. That is what I mean by the possible effect of the threat of price controls on our production effort. Can we afford to gamble with interfering with this tremendous production effort which we are enjoying at the present time?

Secretary SCHWELLENBACH. Well, in the first place, I do not think that having this job as we contemplate having it done—by regular agencies of the Government and not by a special agency—I do not think that there is going to be any threat held over the heads of anybody in the sense of "you do this, or else."

I do think, however, that it will be possible, if our figures show that prices are out of line in some particular industry—that it would be much more possible to get those people in and sit down and frankly discuss the problems and have them give us their arguments against things, not just because they disagree with them or think they are bad, but give us the actual facts concerning that particular industry or that particular group.

And there is this factor, too, which I would like to call to your attention, Mr. Chairman: Coal operations today are at a maximum. The only limitation on coal operations today is the lack of sufficient coal cars. Steel is operating at about 97 percent of capacity. They cannot operate any more than that. Petroleum is operating at close to capacity. And all that has not had the effect of changing prices one way or the other.

The CHAIRMAN. Let us put this question in this way: You mentioned steel operating at 98 percent of capacity——

Secretary SCHWELLENBACH. Ninety-seven percent.

The CHAIRMAN. Ninety-seven percent of capacity.

Secretary SCHWELLENBACH. Yes.

The CHAIRMAN. What can the Government do—I think that is what we would like to know, and we would welcome suggestions from any-

one in Government or anywhere else, in or out of Government—what can the Government do to help production of steel and all other commodities which are in short supply? What can we do to increase production of steel or any other commodity which is in short supply?

Secretary SCHWELLENBACH. Well, let us talk about steel. I hear the arguments, but outside of furnishing figures for other departments of Government insofar as any labor disputes are concerned, I have no authority over it and I do not keep as much up to date as I did before, although I try to follow what is going on.

Some people say that they should increase their steel production capacity. The steel companies come back and say that—

> in order to increase our steel-producing capacity we would have to use up so much steel during the next 2 years that we would reduce the output of steel, so far as the market is concerned.

If you ask me, I do not know which one is right about it, but I can see the arguments on both sides.

The CHAIRMAN. Speaking generally—and I will not ask that you agree with me on this because if you did it might be embarrassing—there is some consideration being given to a judicial decrease in taxes as an incentive to production both on the part of management and labor, having in mind that high taxes, under the present structure—which I will agree is a little archaic—might be a deterrent to maximum production in that if certain industries produce more than a certain given amount they cannot produce over a given amount profitably, and if labor works more than a certain number of days it cannot do so profitably.

Do you wish to comment upon the effect which a readjustment of our tax structure might have upon our production effort, both in the fields of management and labor?

Secretary SCHWELLENBACH. Well, you are certainly correct, Mr. Chairman, when you said that if I did agree with you it would embarrass me, but the fact is that I do not agree with you.

However, I did not come as a tax expert. It seems logical to me that since one of the important factors in this problem of inflation is the fact that we have an oversupply of money—which cannot buy the things it wants to buy—that it would not be good business to increase that supply of money by changing the tax structure at this time.

I state that with the reservation that I am not an expert on taxation; and I hope you do not ask too many direct questions upon the matter of taxes, because I remember one time in 1936, when we tried to get through a tax bill in the Senate in 14 minutes, I objected to it, and Senator Harrison pleaded with me and I said: "We can't pass a tax bill in 14 minutes; I want to read it," and Senator Connally, from Texas, got up and said, "It wouldn't do you any good to read it; you wouldn't know any more when you got through than you do now."

I agreed with him that he was right, but I took it home and read it, however, and satisfied my conscience, even though I did not get any more knowledge out of it.

The CHAIRMAN. Well, I hardly expected you, under the circumstances, to agree with me. But it is a study that is being made, and I think we should explore the possibility of increasing production through an adjustment in our tax structure. That is the point I was trying to make.

Is there any other probable way, that you can think of, by which we might increase production? Or can you inspire some thinking on our part by which we might, through legislation or otherwise, encourage maximum production?

Secretary SCHWELLENBACH. Well, we have maximum production in our basic industries, insofar as it is possible for them to get the necessary supplies with which to produce. That is, we have maximum production of coal.

The CHAIRMAN. Well, necessary supplies and necessary labor. That was my point with respect to making it profitable for labor to work longer hours than are worked now. I do not blame any man for working 40 hours a week if the tax structure is such that if he works 48 hours the money he gets from that other 8 hours of work is taken away from him by the Government.

There is one place up in Canada—a sardine factory which we inspected when we were up there—where they had to keep 300 ladies on the pay rolls to keep 100 on the benches, due to the fact that after they had worked 3 days a week all they were paid over and above that was taken away from them by the Government. So they did not see any particular object in working 6 days a week, doubling their production, if they had to work 3 days for the Government. And so they did not work.

And so possibly we can expand the available labor supply if we take a realistic attitude on the effect which taxes have on the labor production effort.

Now, you say, we are working to capacity in many mills. In the automotive industry, according to a statement made in Chicago by the president of the Oldsmobile Co., about 3 months ago, they were producing about 200,000 units this year, and they have the capacity to produce about 400,000 units with present equipment. The primary reason why they were not producing 400,000 units, instead of 200,000 units, was the lack of steel. A secondary reason was labor trouble—slow-ups, and so on—but the primary reason was that they could not get the materials. "What can we do to get steel?" they say. How many steel factories are there that were owned and leased by the Government, built under the Defense Plants Corporation set-up, which are not now operating and could be made available if we reinstituted some of the urging influences which we gave them during the war to produce steel at capacity?

Just by way of example, I was told the other day that perhaps three steel factories in the United States which were operating under lease by the Defense Plants Corporation are not in production now. What could we do to get those plants into production, which would increase our over-all steel production and increase the production of appliances, automobiles, and everything else using steel, and perhaps give us sufficient increased production of steel to also meet our export demand?

Secretary SCHWELLENBACH. I do not know the reason why these three plants are not being operated. I do know this, however——

The CHAIRMAN. I do not know, either, Mr. Secretary. I am just using that as an example.

Mr. PATMAN. Just on that point: Do you know if they have enough pig iron and scrap iron to operate? A steel plant is no good unless they can get pig iron and scrap.

The CHAIRMAN. We are exporting 50,000 tons of pig iron to Italy, and I assume we could divert some of that to steel plants here if we had the plants to utilize it.

Mr. PATMAN. Fifty thousand tons would not make too much steel, however, in the over-all picture.

The CHAIRMAN. Well, we got scrap during the war, and we could get it now. We could get our fleet to go over to Europe, and surely we should be able to get plenty of scrap.

Mr. PATMAN. That scrap is no good for steel production, though, Mr. Chairman.

Secretary SCHWELLENBACH. I would like to answer your question from the standpoint of the knowledge that I have. I did ask the Bureau of Labor Statistics and the Employment Service to make a study a couple of weeks ago, when I realized that my testimony would probably be required on this question. I asked them to make a study with reference to the matter of the supply of labor. They made that study, and the result was that they reported to me to the effect that the supply of labor was adequate and that production was not being lost because of lack of manpower in the basic industries.

Then you raised the question of increasing productivity by increasing the hours. I imagine that every member of this committee can point out some instance where some one factory or two shut down, and the claim is that they cannot operate on a 40-hour week. It is true that during the war we operated on more than a 40-hour week. But we did have the war incentive at that time. But this idea that you produce proportionately more as a result of a 44- or 48-hour week is just a snare and a delusion.

Everybody said that when they decreased the hours of work in the coal industry from 9 hours a day to 8, it was going to mean a higher cost of coal, because there would be less coal produced. Here is what actually happened: That became effective, I think, during July. They produced 3 percent less in September on an 8-hour day than they did in May, when they were under the old schedule of 9 hours.

They produced 2½ percent less in October than they had produced in May, and in November they produced exactly the same amount that they had produced in May.

You can have people working a longer workweek in one of two ways: You can have them working longer each day or more days. But they just do not produce proportionately more. You can blame them for it or not. It does not make any difference. Our records show that under ordinary circumstances output per hour will be higher in 40 hours than in 44 hours or 48 hours. If you work them Saturdays, instead of increasing the number of hours each day—and this was true even during wartime—the percentage of absenteeism is much higher on Saturdays than on any other day of the week.

There just is no profit. If you talk about increasing the number of hours they will work, they will produce more per hour in 40 hours than they would produce in 48 or 44.

The CHAIRMAN. On page 7 of your statement, bottom paragraph, you say:

It is true that in some industries, especially those in which labor costs are a large fraction of total costs, wage increases have contributed directly to increased prices.

Have you any of those in mind which you could indicate to us at this time?

Secretary SCHWELLENBACH. Well, to the extent that 50 cents was the increase in wages in the coal industry, to the extent that that was used to enable the coal industry to raise the price $1 and up per ton of coal, certainly wages enter into the question. I have never contended that wages did not enter into prices. But they do not enter into them to the extent to which people claim they do. Going back to this milk situation in New York—and I use it only because I know about it—there was no justification for using eight one-hundredths of a cent for justifying a half-cent increase.

The CHAIRMAN. I take that as a clear indication that there are commodities which are affected by increases in wages. Now, in those industries where it was found necessary, and where voluntary attempts failed to put maximum prices on their commodities, would you at the same time recommend maximum wage ceilings?

Secretary SCHWELLENBACH. Yes, certainly, if wage ceilings were necessary.

The CHAIRMAN. And if it became necessary to roll back the prices of these commodities, would you likewise feel it necessary to roll back the wages in the industries producing those commodities?

Secretary SCHWELLENBACH. To be frank with you, I have not heard, Mr. Chairman, of any discussion—and I have read the statements that have been given by other members of the committee, and I have heard no discussion of roll-back in prices. The practical job involved in roll-backs, particularly of wages, presents great difficulties.

The CHAIRMAN. We have heard no discussion, either, with respect to any commodity on which you are going to use these powers. That is what we are trying to get. You probably are better informed than the other Cabinet witnesses we have had on the necessity for writing standards into any price control act which we might pass. Otherwise, we run the risk of the whole act being declared unconstitutional, do we not?

Secretary SCHWELLENBACH. That is right.

The CHAIRMAN. So what we are trying to get are what standards you would suggest that we write into an act, both in the sections incident to or providing for the control of prices and for the control of wages.

Secretary SCHWELLENBACH. The broad outline of the President's message is the basis of the standards which would be used. It is my opinion that——

The CHAIRMAN. The Supreme Court, as I understand it, have never accepted any broad statements or declaration of policy.

Secretary SCHWELLENBACH. That is right. I just started to say that. It is my opinion that that would not be sufficient. Certainly under the Schecter case that would not be sufficient. But I think it is possible to write standards in, and I think the Congress can determine upon necessary standards. I will tell you frankly I deliberately refrained from writing something down to give to the committee.

The CHAIRMAN. You do not need to hesitate.

Secretary SCHWELLENBACH. I was a Member of Congress for 6 years, and I got tired of having bills brought up and being told, "It is this or nothing else." But if the committee wants me to, I will be glad to do that.

The CHAIRMAN. Secretary Harriman suggested the same thing. Let it be understood that as far as this committee is concerned, we welcome the suggestions contained in any bill which the administration might send down at any time. It does not necessarily follow that because the administration sends a bill down, we are going to introduce it. But as a guide to this committee of what the administration wants, I think it would be most helpful if you would submit a draft of a bill with emphasis on the standards which we might write into it, both in this field and in the field of labor. We were told by Mr. Harriman that he would do the same thing with respect to the commodities over which he would have control.

Secretary SCHWELLENBACH. Well, I will be glad to do that.

The CHAIRMAN. Because, frankly, as I said yesterday to him—and I am speaking only for myself and not the other members of the committee—but I understand that, generally speaking, this committee just does not know where to start, when we go into executive session, on these proposals. I just think we would be stymied when it came to writing the standards, because I assure you I have not in mind any standards which we could write to give the broad controls necessary from which you might select the necessary controls. And, of course, unless we write standards affecting the particular industries involved, then, it necessarily follows that we will have to give you broad authority, and the standards will only be with respect to how you should apply those standards across the board in all industry or selectively. It must be done that way or the bill will not be constitutional.

Secretary SCHWELLENBACH. I do not agree with that, Mr. Chairman. You can write in standards not only which will control the way in which the effort will be made, but also which will control the time or the situation or the conditions under which it will be proper for the President——

The CHAIRMAN. When we have done it, do you get broad control over the management of our economy?

Secretary SCHWELLENBACH. I do not think so. I think it is possible to write this bill in such a way that you would get explicit and binding standards. We do not want the limitation of saying this industry, that industry, or the other industry, because it may be by the time when we get around to it that those are not the industries at all with which we have to deal.

The CHAIRMAN. That is our problem. How can we write standards into an act without giving you the broad, general auhortity to control all segments of our economy?

Secretary SCHWALLENBACH. I would like to try my hand at it.

The CHAIRMAN. We will be glad to have you submit it.

Secretary SCHWELLENBACH. Very well.

The CHAIRMAN. Just to close with my questioning, Mr. Secretary, I do not know whether you have these figures with you, but perhaps they should be made part of the record, and if you do not have them with you at this time, may I ask you to obtain them for us and insert them in the record? And then possibly we will want you back later, after we have had a chance to study your testimony further.

First, by what percentage have the average factory hourly earnings gone up since 1939?

Secretary SCHWELLENBACH. I can give you that now, because I want to give it to you and I want to explain it to you.

The CHAIRMAN. All right.

Secretary SCHELLENBACH. The figure is 25 percent. This figure is real wages, taking into consideration——

The CHAIRMAN. Do you want me to give these to you, and then you can explain them?

Secretary SCHWELLENBACH. I would like to explain that particular figure, first, because it is a figure that is widely used, and it is one upon which great reliance is placed. It is certainly a correct figure, but the factor that must be taken into consideration in appraising the result of that figure is that in 1939 the Fair Labor Standards Act went into effect, and, according to a report issued by the Senate Committee on Education and Labor last year, while there was a difference among the committee members as to the general report on the bill, there was no difference among them as to this more or less technical report which was submitted along with it, showing that between 1940 and 1944 2,643,000 individual increases of wages between 32½ cents an hour and up to 40 cents an hour, were made under the wage order provisions of the Fair Labor Standards Act. The report added that—

> wages of untold thousands of low-paid noncovered employees were beneficially affected by the new rates.

The committee also said:

> These changes, on the whole, were absorbed by American industry without any adverse effect on production, employment, profits, and prices.

Making up this upward curve, since 1939, is a great bulk of several millions of employees—we do not know how many; we figured the amount that actually came under coverage of the hour-and-wage law, but we do not know how many millions there were besides. The increases they received as the result of the application of the Fair Labor Standards Act contribute to an important extent toward the increase in wages since 1939; and when we use the figure of 25 percent real wage increase since 1939, we must realize that included in it are many people who were getting below 25 cents an hour and who went up to 40 cents an hour. I did want to make that explanation.

The CHAIRMAN. I just do not follow you that the average would change by reason of the increase in the number of employees, but we have your statement before us.

Now, by what percentage have the average weekly earnings gone up in the same period? You do not need to put these in now, Mr. Secretary.

Secretary SCHWELLENBACH. We are making notes of your request.

The CHAIRMAN. By what percentage has the consumer price index gone up since 1939? What percentage increase does this mean in real wages or in the purchasing power of wages?

I assume the Department has those figures or can get them.

Secretary SCHWELLENBACH. Yes; we have them, and I will be very glad to put them in.

The CHAIRMAN. If we could get them this afternoon, that would be very helpful as the committee might want to study them in anticipation of further questioning later in the week perhaps.

Secretary SCHWELLENBACH. Yes, sir.

The CHAIRMAN. Mr. Brown.

Mr. BROWN. Referring to pages 6 and 7 of your statement, Mr. Schwellenbach, I wish to call attention to the fact that the price of cotton, so far as the farmer who grew it is concerned, has gone steadily down, while the cost of manufactured cotton goods spiralled steadily upward.

The price did reach nearly 38 cents in late June and July, but the price went steadily down and the average farmer got rid of his cotton at around 31 or 32 cents. It is true that cotton has been going up since November 1, but it is now out of the farmer's hands.

A great deal of our cotton brought less than 25 cents a pound because of rain-damaged staple. Considering the present price of cotton goods, cotton ought to be nearly 50 cents a pound.

As for labor costs, several years ago, when cotton was 15 cents a pound, it cost only $7.50 to pick a bale. Today it costs over $30 to gather a bale and that is only one small item of the cost.

Secretary SCHWELLENBACH. I will be very glad to accept your correction. The figures that you gave are later than the figures that we carry.

Mr. BROWN. I remember several years ago Mr. Donald Nelson, who served as Chairman of the War Production Board and was also a director of Sears, Roebuck & Co., testified that there was only 10 cents worth of cotton in a $2 shirt. Cotton at that time was selling for something like 18 cents a pound. So a few cents rise in cotton does not materially affect the price of cotton goods.

Secretary SCHWELLENBACH. I got my education in agricultural economics from Senator Smith——

Mr. BROWN. Of course, in the last 2 weeks the price for raw cotton has gone to about 35 or 36 cents a pound, but that is just recently, after cotton growers had gotten rid of their cotton.

Secretary SCHWELLENBACH. Well, these figures are for November 18, and they show about 35.4 cents. I am very glad to have the record corrected. What we tried to do was to get the latest figures.

Mr. BROWN. I know, but they always come in here and speak about the price of raw cotton. Your testimony would create the inference that the cotton grower is taking advantage of somebody. As a matter of fact, it is the other way round.

Secretary SCHWELLENBACH. Well, I have been very careful to indicate that the farmers, generally, are not responsible for increasing prices in their products.

Mr. BROWN. We are going to have a shortage of cotton if you do not get the cotton growers to produce it. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, would it be convenient for you to come back tomorrow morning?

Secretary SCHWELLENBACH. I have an 11 o'clock appointment that I cannot get out of, which is really very important. I would be very glad to come back this afternoon.

The CHAIRMAN. The situation is such on the floor that we cannot meet this afternoon.

Secretary SCHWELLENBACH. I see. I can come tomorrow morning, with the understanding that I can leave at 10 minutes to 11.

The CHAIRMAN. We are trying to get in touch with Secretary Anderson for him to be here tomorrow morning, so if you can come at 10 o'clock and then leave at 11, we will try to get Secretary Anderson to come and relieve you at 11 o'clock.

Secretary SCHWELLENBACH. Very well.

The CHAIRMAN. The committee will stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 12 m., the committee recessed, to reconvene on Wednesday, December 3, 1947, at 10 a. m.)

ECONOMIC STABILIZATION AIDS

WEDNESDAY, DECEMBER 3, 1947

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened, pursuant to adjournment, at 10 a. m.

Present: Mr. Jesse P. Wolcott (chairman) presiding, and Messrs. Smith, Kunkel, Talle, Sundstrom, McMillen, Kilburn, Buffett, Cole, Hull, Banta, Fletcher, Foote, Spence, Brown, Patman, Monroney, Folger, Hays, Riley, and Buchanan.

The CHAIRMAN. The committee will come to order.

We will continue this morning with the testimony of Secretary Schwellenbach.

Mr. Secretary.

STATEMENT OF LEWIS B. SCHWELLENBACH, SECRETARY OF LABOR—Resumed

Secretary SCHWELLENBACH. May I say this, Mr. Chairman, that I sent up yesterday afternoon—I do not know whether the chairman got it or not—a statement in response to the request of the chairman, and I will say also, if I may, that I have put some people to work on this draft of the standards. It is going to take several days to complete it, because we have to first take up the facts and then look at it from a legal point of view, but I will have it, I am sure, either early next week or sometime before Wednesday or Thursday of next week.

The CHAIRMAN. That will be very helpful; and, without objection, this information will be inserted in the record and made available to the committee members when presented.

(The information requested is as follows:)

Average earnings of factory workers, 1939–47

	August 1939	June 1946	June 1947	September 1947	Percent change from— August 1939 to September 1947	June 1946 to September 1947	June 1947 to September 1947
					Percent	*Percent*	*Percent*
Average hourly earnings..cents	62.4	108.4	122.6	124.9	+100.2	+15.2	+2.0
Average weekly earnings	$23.77	$43.31	$49.33	$50.45	+112.2	+16.5	+2.3
Consumers' price index (1935–39=100)	[1] 100.6	133.3	157.1	163.8	+62.8	+22.9	+4.3
Average real weekly earnings (in 1935–39)	$23.63	$32.49	$31.40	$30.80	+30.3	−5.2	−1.9

[1] Data for Sept. 15, 1939.

Source: U. S. Bureau of Labor

The CHAIRMAN. Dr. Smith.

Mr. SMITH. Mr. Secretary, you are appearing before this committee to recommend the adoption of the Marshall plan and the program outlined by the President in his message of the 17th of November, for reimposition of the Office of Price Administration rationing, and so forth. Is that correct?

Secretary SCHWELLENBACH. Well, I am appearing particularly with reference to point 10 of the President's program. I think the gentleman knows that other Cabinet members have appeared in reference to the other points involved. Insofar as I have any knowledge which I think might be of any assistance to the committee, I will be glad to discuss the other nine points, but——

Mr. SMITH. Are you in favor of the so-called Marshall plan?

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. Do you think that the recommendation by the President that we reimpose price control, rationing, and so forth, is in some way connected with the Marshall plan?

Secretary SCHWELLENBACH. Well, in the first place, I do not think that there was anything in the President's message which could be construed as the reimposition of price control in the sense that we knew it during the war.

Mr. SMITH. Have you read the message?

Secretary SCHWELLENBACH. Yes; I have read it, and I heard it delivered, and I think I understand it, too.

Mr. SMITH (reading):

> Authorizing the Government to impose price ceilings on vital commodities in short supply which basically affect the cost of living. Basic elements in the cost of living are food, clothing, fuel, and rent. In addition, the legislation should be broad enough to authorize price ceilings on those vital commodities in short supply that basically affect industrial production.

Secretary SCHWELLENBACH. I do not construe that to be a reimposition of general price control.

Mr. SMITH. In this outline that you have provided—I suppose you would call it an outline for legislation—have you indicated in there that certain foods should be left out?

Secretary SCHWELLENBACH. Insofar as it is a matter of individual items, I have not discussed that. I proposed to the committee yesterday that I believed that it was possible for me—I said I would like to try my hand at it, at least—to write that portion of the bill setting up standards so that the committee and the Congress would know the extent to which price controls would be reinstituted.

Mr. SMITH. What commodities do not basically affect the cost of living?

Secretary SCHWELLENBACH. I answered that yesterday by saying—and I still stick to that answer—that until the time comes when an effort is made to reimpose on a selective basis, it is not proper or possible to pick out any commodities and say "this is the commodity to which you intend to reimpose control," and I do not think that, under the proposal I made yesterday—and I think I can draw up the standards satisfactorily to this committee—I do not think it would be of any great value to the committee or to anybody else for me to pick out particular commodities and say, "These shall be placed under price control and the others shall not."

Now, I am not trying to dodge the issue, and I am not trying to evade any question. I am just presenting that as the proposition.

Mr. SMITH. We have had one, and only one, experience with selective price control. How did it work?

Secretary SCHWELLENBACH. Do you mean the four commodities that were left? Is that what you are referring to?

Mr. SMITH. What four commodities?

Secretary SCHWELLENBACH. In the bill that was passed in the latter part of June last year or the first of July, there were four particular commodities, as I remember——

Mr. SMITH. Oh, no; I am talking about the price control which we instituted during the war, as a war measure. How did that work? How did selective price control work? We started out with selective price control. How did it work?

Secretary SCHWELLENBACH. There was a period of a year during which there were studies of price controls, but I do not believe that you can compare conditions now with conditions in wartime.

Mr. SMITH. You apparently do not know the history of the price-control legislation under this administration.

Secretary SCHWELLENBACH. I will admit that so far as the enforcement of price controls is concerned, I was not in Washington. I did try a number of price-control cases, however.

Mr. SMITH. But were you in the United States?

Secretary SCHWELLENBACH. Yes; I was in the United States. I was trying Office of Price Administration cases.

Mr. SMITH. You tried Office of Price Administration cases and you read the newspapers, and you did not know that one of the biggest battles which raged in Washington was over that particular point—whether we were to have selective price control or all-out price control?

Secretary SCHWELLENBACH. I knew that from reading the newspapers; yes.

Mr. SMITH. Well, then, you did know about it, and I am asking you: How did selective price control work out?

Secretary SCHWELLENBACH. Just as an ordinary newspaper reader at that time; the fact that it was necessary, or thought to be necessary, to extend it to complete control over prices, I would assume that it was found that selective price control at that time was not sufficient to meet the problem with which the country was confronted during a time of war.

Mr. SMITH. And a group appeared before this committee and told us that selective price control would not work. So that the only experience we have ever had with price control has been a failure, and you are now asking the Congress to give the administration authority to control all prices on a selective basis, knowing that that scheme was a failure when it was tried.

Secretary SCHWELLENBACH. During time of war, yes; when all of the efforts of the country were being extended toward war activities, and when there was not a situation such as we have now, where you have a large number of commodities which are not in short supply.

Mr. SMITH. You had commodities that were not in short supply during the war. Mr. Secretary, you realize, do you not, that, in an economy, commodities are all related to each other. You cannot do something to one commodity without doing something to all commodities; is that not true?

Secretary SCHWELLENBACH. I was very much interested, if you do not mind my illustrating it, that the furriers were very anxious to have the style designers determine whether or not the ladies were going to wear long or short skirts, because they could not make the fur coats until they knew how long the skirts were going to be. That is the best example I have seen of the relation between one commodity and another commodity.

Mr. SMITH. You have advocated the so-called Marshall plan on the basis of what you know about it or on the basis of what somebody told you about it?

Secretary SCHWELLENBACH. Well, I am not a member of the State Department. I have heard considerable discussion about it; I think I have read just as much as anybody else has concerning it. Of course, it is from what I have been told or what I have read about it.

Mr. SMITH. Have you read these voluminous reports by Mr. Krug, Secretary of the Interior, the report of the Harriman committee, the report of the President's Advisory Committee on Economics?

Secretary SCHWELLENBACH. Yes; I have read them.

Mr. SMITH. Do you agree with them?

Secretary SCHWELLENBACH. Well, I cannot challenge any particular portion of them.

Mr. SMITH. You think that at least they are right on the vital things?

Secretary SCHWELLENBACH. Yes, I think so. A terrific amount of work went into them, of course, and certain questions arise to which you can say just from your own personal philosophy, "I do not believe in this," or "I believe in that," but as to the details of them, I do not know. I assume they are correct, however, because I know they were very carefully prepared.

Mr. SMITH. Do you think it is necessary to give the President all the powers he has asked for to carry out the Marshal plan?

Secretary SCHWELLENBACH. Yes, I think so.

Mr. SMITH. You do?

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. You have recommended to this committee that we write a law authorizing the political authority to control wages; is that right?

Secretary SCHWELLENBACH. Asking the duly elected and appointed officials of Government to control wages in those cases where it is necessary, yes. I thought I made it plain in my statement of yesterday.

Mr. SMITH. Which, Mr. Secretary, is tantamount to asking for blanket authority to control wages.

Secretary SCHWELLENBACH. I do not think it is, if the gentleman will let me interrupt. I do not think it is, because I intend to present to this committee—and I think it can be done—a set of standards by which this committee will know the authority they are going to extend to the executive branch of the Government.

Mr. SMITH. Well, of course, I will have to see your draft first.

Secretary SCHWELLENBACH. I would expect that when I present it, that I could come up here and your gentlemen would ask me about it. I would have to defend it, naturally.

Mr. SMITH. We tried that under the Price Control Act. I, myself, was the author of what I believe to be the most important article

in the entire Price Control Act—a prohibition against the use of the powers granted in that act, for the purpose of changing the course of the American economy, and there was no provision, so far as I know, which was violated more than that particular provision.

Secretary SCHWELLENBACH. Violated, did you say?

Mr. SMITH. Yes, violated. Now, why do you want this blanket authority?

Secretary SCHWELLENBACH. I am not asking for a blanket authority.

Mr. SMITH. Well, until you have presented to this committee language that clearly and unmistakably proves to us that you are not asking for blanket authority—so far the President has asked for blanket authority.

Secretary SCHWELLENBACH. I do not think so.

Mr. SMITH. Well, of course, you can quarrel with that if you wish——

Secretary SCHWELLENBACH. I do not think anybody can outline in a message the language that I think is necessary under the Schecter case. This is the position I take on this matter, and I may as well make it plain now:

We have certain war powers still in existence which might make it possible and probably would make it possible to write a blanket law under that authority. Now, I do not think we should do that upon this question. I am going back to the decisions, in 1935, and 1936, where the Supreme Court said that the Congress had improperly delegated legislative authority and I am going to attempt to write those standards upon that sort of a basis.

Mr. SMITH. That was when we still had the Supreme Court, was it not?

Secretary SCHWELLENBACH. Well, please, do not ask me that question. I do not think that is fair to ask a member of the Cabinet to discuss the Supreme Court.

Mr. SMITH. If I understood you correctly—and you can correct me if I am wrong—you stated yesterday that you had not consulted what you called "labor" before coming before this committee and recommending political control of wages; is that right?

Secretary SCHWELLENBACH. I did not say "political control of wages." Gentlemen, please, I have tried twice to——

Mr. SMITH. Well, you call it Government control. I use them synonymously now. We used to be able to distinguish between the two, but we cannot any more, so we will not quarrel about that. Let us say Government control, then.

Secretary SCHWELLENBACH. All right; yes, that is correct.

Mr. SMITH. You did not consult what you call "labor" before you came before this committee and recommended that we enact a law giving the Government power to control wages?

Secretary SCHWELLENBACH. Yes, I answered that I had not, and it is still true.

Mr. SMITH. Did you talk to anyone about this thing before you came before the committee. Did you consult with any of the other Cabinet members or any other officials of the Government, or anyone else, concerning that matter before you came before this committee and made that recommendation?

Secretary SCHWELLENBACH. Well, naturally I discussed the question with the members of the Cabinet. And very naturally I discussed

the question with the people in my own department—particularly the Bureau of Labor Statistics, from which I got the figures. But if you are getting at the point whether I discussed the matter with anybody outside, then, my answer is no.

Mr. SMITH. Do you mean by that that you did discuss it with people outside of what you call "labor"? I am trying to understand you now.

Secretary SCHWELLENBACH. Members of the Cabinet and members of my own department.

Mr. SMITH. Did you discuss them with the President?

Secretary SCHWELLENBACH. Well, there were general discussions at the time the message was being prepared.

Mr. SMITH. And the President was agreed?

Secretary SCHWELLENBACH. I did not show my testimony——

Mr. SMITH. No, I mean he was agreed that we should have Government control over wages?

Secretary SCHWELLENBACH. Well, he wrote his message and he delivered it. That is certainly evidence that he believed in it.

Mr. SMITH. What would be the point in consulting what you call "labor" after you had already agreed——

Secretary SCHWELLENBACH. I said I did not consult with labor.

Mr. SMITH. I said what would be the point in you consulting with labor—you brought the question up—this matter, if you had already agreed or decided that, on the basis of the President's position, such control was necessary?

Secretary SCHWELLENBACH. I think I stated yesterday that I did not feel, until such time as we had seen the effects of the first nine points of the program—if they are enacted into law—that there was any value in discussing with labor the tenth point.

Mr. SMITH. I am not touching on that point whatsoever, what value there might have been in it for you in a discussion of this matter with labor. I am simply making this point: you brought up the question yesterday, and gave me the impression, and probably I gave the rest of the committee and the press the impression, that you had done this independently, that it was your own decision, namely, that wages ought to be controlled. Now you come before this committee and you say that you agreed with the President that the matter was brought up at a Cabinet meeting or somewhere where you met the President.

Secretary SCHWELLENBACH. I would like to suggest to the gentleman that he read the record of yesterday. I have no recollection of giving that impression or intending to give that impression. Now, it may be that I did in the record, but if I did, it was certainly not my intention to say that I alone arrived at this decision.

Mr. SMITH. Now, Mr. Secretary, what was the purpose of your making that statement yesterday?

Secretary SCHWELLENBACH. I still do not believe that I made the statement, Mr. Congressman.

Mr. SMITH. You made the statement yesterday that you had not consulted labor.

Secretary SCHWELLENBACH. Yes, I did.

Mr. SMITH. What was the purpose in making that statement?

Secretary SCHWELLENBACH. I made it in response to a question which was submitted to my by the chairman, I believe.

Mr. SMITH. I do not know exactly what the question was. I wish I had it here.

Secretary SCHWELLENBACH. I wish you had it, too.
Mr. BUCHANAN. It is right here.
Mr. SMITH. What page?
Mr. BUCHANAN (reading):

The CHAIRMAN. What would be the possible psychological effect on labor from the imposition of the power to control wages? What would be the immediate reaction of labor to that?

Secretary SCHWELLENBACH. I would assume that organized labor would not like the imposition of wage controls.

And it follows from there. Pages 394 and 395.

Mr. SMITH. I do not see anything, momentarily, in this transcript which indicates that you were specifically asked the question as to whether you had consulted labor. Maybe the chairman remembers it. I cannot find it. It is not in this part of the transcript.

Do you expect the heads of the two big unions to agree with you on this point?

Secretary SCHWELLENBACH. No, I read the papers and Mr. Green made a statement, I think a couple of weeks ago, and disagreed with it, and I read this morning that Mr. Murray made a statement disagreeing with it.

Mr. SMITH. Mr. Murray has made a statement. How does Mr. Carey, secretary of the Congress of Industrial Organizations, stand on this point?

Secretary SCHWELLENBACH. Well, Mr. Carey happens to be in Europe at the present time attending a meeting, and I have no way of knowing what his feeling is.

Mr. SMITH. He was a member of the Harriman committee, was he not?

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. And he signed this report, did he not?

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. And this report recommends Government control of wages, does it not?

Secretary SCHWELLENBACH. I think it does; yes.

Mr. SMITH. Now, who is right: Carey or Murray?

Secretary SCHWELLENBACH. Well, naturally, I will have to take the position that my position is correct and if it happens that Mr. Carey agrees with me or somebody else agrees with me, why they must be correct, because I take the position that I am correct. I could not say that somebody who disagreed with me was correct.

Mr. SMITH. These leaders of the labor unions are for the President's program of price control, rationing and so forth; is that true or not?

Secretary SCHWELLENBACH. Do you mean to make a distinction between the other points and the last half of point 10, wage control?

Mr. SMITH. No. I mean that these union leaders are in favor of reimposing price controls, rationing, and the other controls which the President has recommended; is that right?

Secretary SCHWELLENBACH. Well, if I construed Mr. Green's statement correctly—it was issued a couple of weeks ago—the position he took was that he was in favor of the first nine points but opposed to the tenth point—that is, opposed to price control and wage control. If I read the morning paper correctly, I take it that Mr. Murray is in favor of the first nine points plus the first part of the tenth point,

which is price control—not selective price control such as the President proposes, but general price control—but is opposed to the latter part of point 10, which is wage control.

Mr. SMITH. Do you believe it is possible to have price control and rationing without having control of wages?

Secretary SCHWELLENBACH. On a selective basis, I think it is necessary to have wage control.

Mr. SMITH. That is not an answer to my question. I wish you would answer my question.

Secretary SCHWELLENBACH. Yes, it is. I am stating exactly the proposition. On a selective basis, I think it is necessary to have wage controls if you are going to have price controls on a selective basis also.

Mr. SMITH. As I said before, we tried only once in our history to institute price control, and there was nothing about wage controls. Is that true or not?

Secretary SCHWELLENBACH. Not exactly true, no.

Mr. SMITH. Nothing is exactly true.

Secretary SCHWELLENBACH. Well, your question assumes a situation that just did not exist. I have read in detail about the meetings that were held before the National War Labor Board was set up, and there was a no-strike pledge by labor as the basis for the Price Control Act and the controls that were instituted during the war. Now, it was not entirely without any control of wages. The National War Labor Board was passing upon the question of wage increases in almost every case that it had before it. It had other questions to consider, but it certainly was not an effort to try to impose price controls without a control over wages.

Mr. SMITH. Do you remember when the Price Control Act was amended in 1942?

Secretary SCHWELLENBACH. Yes; I remember.

Mr. SMITH. Did you ever read the amendment that I offered on the floor of the House at that time?

Secretary SCHWELLENBACH. No; I did not. I am sorry.

Mr. SMITH. I offered an amendment on the floor more to test the sincerity of the proponents of price control than anything else, which amendment provided for the freezing of all prices and all wages as of then for a period of 90 days, until the committee could make a study of the matter. Why do you think I offered that amendment?

Secretary SCHWELLENBACH. I do not know.

Mr. SMITH. Let me put it this way: I told you why I offered the amendment. While I was speaking on the floor, a man representing what he believed to be labor came to me on the floor and suggested that if I would strike out the provision to include wages, and put in instead a provision giving the President authority to adjust wages at such points where he thought it justified, that they would go along with the proposition. I am bringing this up to show you that we did not have control of wages when we started out. However, we had control of wages before we got through. So we have only had one experience, and that failed, and now you are asking us to embark on the same program.

Secretary SCHWELLENBACH. I do not see that I am asking you to embark on the same program. If I understand the question now—

and I would like to restate it, if I may—it is that we had a program where we had price controls, but no wage controls, and that failed, and that I am asking you to do the same thing.

Mr. SMITH. That is right.

Secretary SCHWELLENBACH. Well, I am not.

Mr. SMITH. So, then, you are asking for control of wages, and you assume that the proposition is satisfactory to the heads of organized labor.

Secretary SCHWELLENBACH. No; I said yesterday that I assumed it would not be, and I did not say this yesterday—but you have read the statement that Mr. Green made a couple of weeks ago, probably the day after the message was delivered, in which he said that they were opposed to all of point 10, but were in favor of the first nine points, and Mr. Murray gave out the statement some time yesterday—I do not know when—which indicates that the Congress of Industrial Organizations is not in favor of wage controls. So I certainly have not said that I assumed that labor would be in favor of it.

Mr. SMITH. Let us go back again. Those same groups were against point 10 when we originally set up the Price Control Act, but they finally came around to agreeing that wages ought to be controlled also; is that not true?

Secretary SCHWELLENBACH. They agreed to a no-strike pledge, yes; that they would not strike during the war.

Mr. SMITH. And you could have a no-strike pledge again and reinstitute the controls over wages; could you not?

Secretary SCHWELLENBACH. I do not know whether it would be possible to secure a no-strike pledge or not.

Mr. SMITH. In other words, the future is before us. That is what you mean. And we do not know what it is going to be.

Secretary SCHWELLENBACH. Well, I certainly agree that the future is before us, but as far as I am concerned, I want an opportunity to present a very definite set of standards to this committee, so that you are going to know what it is going to be, so far as this question is concerned.

Mr. SMITH. This program postulates the reduction of the cost of living; is that right?

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. What items are you going to cut down?

Secretary SCHWELLENBACH. Well, it is to be hoped that as a result of the program as a whole that it will be possible to cut down on the items which are now selling in excess of what people can afford to pay for them.

Mr. SMITH. Which items?

Secretary SCHWELLENBACH. I would say that it was to be hoped that every item the price of which is excessive because of the conditions that exist, and which we hope can be met by the various proposals in the 10 points——

Mr. SMITH. Name some items.

Secretary SCHWELLENBACH. I would rather put it this way, if I may, Mr. Smith. I would like to see the time come when my wife could take $10 and get the week-end's groceries with it.

Mr. SMITH. That is not answering my question. You come here and recommend that the cost of living be reduced. You recommend

that the President be given the power to reduce the cost of living. Am I to understand that you do not know what items would be involved?

Secretary SCHWELLENBACH. No, you are not to understand that to the least extent, and there has been nothing in my testimony which would justify that sort of a conclusion. I said yesterday, and I repeat it today, that the problem we had was to meet this general rise in the cost of living. I cannot tell you whether or not it will be possible on any particular item, but the proposals made by the President, taken as a whole, in the opinion of those who have various parts to play in the administration of the program, will result in a stopping of the rise and a reduction in the cost of living.

I am not saying that any one of these items necessarily will be affected, but you might be interested in knowing what is included in the cost of living index which we have.

Mr. SMITH. What is included?

Secretary SCHWELLENBACH. I would like to give, also, the relative importance, so far as the weight is concerned.

Mr. SMITH. So far as what is concerned?

Secretary SCHWELLENBACH. So far as the weighting of the various items is concerned; how much importance is given to each one.

All foods, 40.

Mr. SMITH. That is the weight given?

Secretary SCHWELLENBACH. Yes; that includes cereals; bakery products; bread; meat; fish; poultry; beef; pork; dairy products, including milk and butter, eggs; fruits and vegetables.

Mr. SMITH. I do not want to take up too much of the committee's time, because you have mentioned enough to answer my question.

Secretary SCHWELLENBACH. Well, there are just two other items. Would you mind if I read them?

Mr. SMITH. I beg your pardon.

Secretary SCHWELLENBACH. Rent, 13 to 14; clothing, 12 to 14.

Mr. SMITH. Very well. Just how are you going to reduce the cost of those items?

Secretary SCHWELLENBACH. On some of the items it will come as a result of the proposals which will be handled by the Secretary of Agriculture, and on some of them it will come as a result of the various allocations which will be made.

Mr. SMITH. Let us take one item—grain, for example.

We want to reduce the cost of grain. Where are you going to reduce that cost: At the end, where it is presented in the form of a finished product as a loaf of bread, or at the farm, where the wheat is raised, or all the way across the board?

Secretary SCHWELLENBACH. It would be hoped that it would be possible to reduce the price of a loaf of bread, when we talk about grain, to the consumer.

Now, at various points along the line it may be possible to do that. I was a member of the Committee on Agriculture in the Senate and I remember we sat for a month, at one time, listening to testimony about the effect of speculation in the grain markets on the cost of grain—this was back in 1937, at a time when the markets were off—and I recognized that a reasonable amount of hedging both by the farmer and the warehouseman is just the plain ordinary insurance that any good businessman would take out.

If you have a building, you put insurance on it; and I certainly think a farmer is entitled to that sort of insurance, and also the warehouseman, and a reasonable amount of operations in this market outside those two fields in order to maintain——

Mr. SMITH. You are getting off the reservation again.

Secretary SCHWELLENBACH. You asked me for details and I am giving you details.

Mr. SMITH. I do not think you are even discussing the subject.

Secretary SCHWELLENBACH. Well, I am sorry.

Mr. SMITH. I asked you specifically how you are going to reduce these prices. Are you going to use subsidies?

Secretary SCHWELLENBACH. That is a question which I think the gentleman should propound to the Secretary of Agriculture rather than to me.

Mr. SMITH. You know that the two largest union organizations in the country are proponents of subsidies to reduce the cost of living—namely, the American Federation of Labor and the CIO. You are aware of that, are you not?

Secretary SCHWELLENBACH. What kind of subsidies?

Mr. SMITH. Pardon?

Secretary SCHWELLENBACH. What kind of subsidies?

Mr. SMITH. Federal subsidies.

Secretary SCHWELLENBACH. Do you mean on farm products?

Mr. SMITH. On any article that you might be concerned with in reducing its cost to the consumer.

Secretary SCHWELLENBACH. No; I do not know that.

Mr. SMITH. You do not know that?

Secretary SCHWELLENBACH. No.

Mr. SMITH. Well, what was their position throughout the war on that point? You read the newspapers, you said.

Secretary SCHWELLENBACH. Yes; I read the newspapers.

Mr. SMITH. Well, they were full of it.

Secretary SCHWELLENBACH. Subsidies on all products?

Mr. SMITH. I did not say all products.

Secretary SCHWELLENBACH. What products did you say? I'm sorry.

Mr. SMITH. They were in favor of using Federal subsidies for the purpose of reducing the cost of living on various consumer items; is that not true?

Secretary SCHWELLENBACH. I did not know that fact; no.

Mr. SMITH. You did not know that?

Secretary SCHWELLENBACH. No, sir.

Mr. SMITH. Now, Mr. Secretary, you have raised the question of inflation here. This all relates to inflation, does it not?

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. What is this inflation you are talking about? Who created it?

Secretary SCHWELLENBACH. Well, I will first answer the first part of your question.

There are two kinds of inflation. One kind is the one that comes as a result of a gradual increase in prices. That is the kind that we have today. The other is the kind that they had in Germany and France, where everybody bought everything they could that morning because

they were afraid they would not be able to buy it for any amount of money the next day.

We have not reached that point.

Mr. SMITH. You are asserting to this committee that the inflation which now prevails in the United States is of a different kind than that which Germany had?

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. Of a different kind? Now, I did not say "degree"; I said "kind." You say it is a different kind of inflation than that which Germany had?

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. All right.

Now, what was Germany's inflation? Do you know?

Secretary SCHWELLENBACH. Well, it was due to the complete lack of confidence in the monetary system they have.

Mr. SMITH. What caused the lack of confidence?

Secretary SCHWELLENBACH. The willingness of the Weimar Republic to increase, day by day, the amount of money in circulation.

Mr. SMITH. In other words, they increased their circulating medium. Is that what you mean?

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. What have we done?

Secretary SCHWELLENBACH. I do not think we have increased the circulating medium in any sense in the same way in which Germany increased its circulating medium.

Mr. SMITH. Well, now, Mr. Secretary, let us look at the facts. Today we have a debt of some $250,000,000,000. I have not looked at the statement of deposits in commercial banks recently, but I will say it is about 140 or 150 billion dollars. We have about $26,000,000,000 in currency in circulation.

Are you asserting to this committee that those promises to pay are not identical, in kind, with the promises to pay which the Weimer government put out in Germany and which ultimately led to their disastrous situation?

Secretary SCHWELLENBACH. No; I do not think they are.

Mr. SMITH. You do not think they are?

Secretary SCHWELLENBACH. No.

Mr. SMITH. Will you tell me now specifically what the difference is?

Secretary SCHWELLENBACH. The present situation in this country is entirely different from the point of view of printing the money that was put out; and as I understand it, there is nothing in the proposal made by the Secretary of the Treasury which would indicate any intention of following anything except the orthodox method of banking and currency in this country.

Let me say further, gentlemen, please, that, as I said yesterday, I am not an expert on taxation, and neither am I an expert on banking and currency. I was a Member of the Congress for 6 years, but was not a member of the committee of the Senate on these matters. Therefore I think that those questions might much better be presented to the Secretary of the Treasury than to me.

Mr. SMITH. In effect, then, you are saying that you do not know whether this paper which we have out in this country is of a different kind from that what Germany put out.

Secretary SCHWELLENBACH. No; I did not say that at all. I said very definitely to the contrary. But I said that I felt that detailed questions on matters of currency and banking should be submitted to the Secretary of the Treasury rather than to me.

Mr. SMITH. But you are here testifying for a program to wrestle with this problem of inflation. Therefore, you are supposed to have some knowledge. Let me ask you this question——

Secretary SCHWELLENBACH. I call your attention to the fact that in the opening portion of my statement I said:

> In limiting my testimony to the wage-control aspects of the tenth point, however, I do not wish to imply that the other nine points are not necessary. It is merely that, as has been the case with other Cabinet officers, I am limiting, insofar as possible, a discussion of the first nine points.

Mr. SMITH. Now, Mr. Secretary, you say that we did not carry out any unorthodox methods of creating money. Is that not what you said?

Secretary SCHWELLENBACH. That is my understanding, and I used the term in comparison with the system carried out in Germany and France.

Mr. SMITH. In comparison? You did not say "comparison," but you mean now to modify your answer to that extent? What was there orthodox about the practice of monetizing the public debt through the commercial banking system prior to and during the war?

Secretary SCHWELLENBACH. I cannot answer that question.

Mr. SMITH. Did you know that they did such a thing?

Secretary SCHWELLENBACH. I do not believe I did.

Mr. SMITH. You did not know that the Government was using that method—that indirect method—to print money, did you?

Secretary SCHWELLENBACH. No; I do not know now that they did.

Mr. SMITH. Well, read your Federal Reserve Bulletin and you will be told in there that the commercial banks and the Federal Reserve System are now holding a little less than $100,000,000,000 of Government obligations. How do you think they got those Government obligations?

Secretary SCHWELLENBACH. Do you mean all of the Federal Reserve banks in the country?

Mr. SMITH. Yes; the 12 Federal Reserve Banks and the commercial banks. How did they get those obligations?

Secretary SCHWELLENBACH. They bought the bonds.

Mr. SMITH. What did they use to pay for them?

Secretary SCHWELLENBACH. As I understand it, in most of these transactions they would set up an account with somebody who had a Government contract. They would set up an account and just simply pay out the bills on that account.

Mr. SMITH. That is, the Government would pay out the bills?

Secretary SCHWELLENBACH. No; the banks would.

Mr. SMITH. Pardon me?

Secretary SCHWELLENBACH. The banks would.

Mr. SMITH. The banks?

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. They would use those securities to pay for commercial transactions directly?

Secretary SCHWELLENBACH. Not directly; no.

Mr. SMITH. Was that money used in any other way except as a checking account—a credit set up on the books of the commercial banks? Was it used in any other way except as a checking account for the Federal Government?

Secretary SCHWELLENBACH. I cannot answer that question.

Mr. SMITH. Then how do you propose to testify before this committee—when you do not know the nature of that procedure—that the paper which is out in this country now is of a different kind than that which Germany had? How do you justify your statement, Mr. Secretary?

Secretary SCHWELLENBACH. I justify it because I know that what happened in Germany was a direct printing and issuing, by the German Government, of new currency every day.

Mr. SMITH. Do you mean that the German Government went down to the printing press and said: "Print so many marks"? Is that what you mean?

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. Now, Mr. Secretary, you had better read up on that and you will find that that is not the way it took place at all. It was done indirectly, just as we did it indirectly. Those marks were printed against Government securities, identical with ours, which were placed with the commercial banks of Germany—perhaps I should say the Reichsbank. Those marks were not printed directly but against Government securities.

Do you understand that now?

Secretary SCHWELLENBACH. The Reichsbank securities?

Mr. SMITH. Yes.

Secretary SCHWELLENBACH. Yes.

Mr. SMITH. What is the difference between that procedure and ours, then? I will tell you——

Secretary SCHWELLENBACH. The commercial bank certainly bears no relation to the Reichsbank.

Mr. SMITH. Well, the Federal Reserve bank.

Secretary SCHWELLENBACH. I still say a commercial bank, whether it belongs to the Federal Reserve System or not, bears no relationship and cannot be compared with the Reichsbank.

Mr. SMITH. That could all be true, Mr. Secretary, but the things which the commercial banks did in this country and the things which the Reichsbank did in Germany might compare favorably; is that not so?

Secretary SCHWELLENBACH. Your question is rather difficult to answer. In certain things they might have done the same thing, and in certain things they might have done differently. But, as far as I understand it—I still insist that you ought to ask these questions of the Secretary of the Treasury—so far as I understand it—and I got my information about the German system by visiting in Berlin and talking to members of the German Government—there was a complete difference, in that there was simply an issuance of large amount of currency every day.

Mr. SMITH. Let me apprise you of the all-critical fact that there is no essential difference whatsoever between the paper that is out in this country at the present time and that which was printed by the Reichsbank in Germany. There is no essential difference, and I

assert this on the ground that there is practically no students of this problem that will deny it.

I am rather surprised that you come before this committee this morning and try to make a distinction between the two.

The point is this, Mr. Secretary: The New Deal is crying its head off about inflation at the present time. Who created that inflation? The New Deal printed all this money, did it not? Now we are up against inflation. Isn't that a fact? You see yourselves in the position where the only hope of keeping yourselves in power is to do exactly what Hitler did, exactly what Mussolini did: To get enough control over the people who hold you in power. And to be able to attain that control you have to have price control; you have to have rationing; you have got to have control over the farmers' crops; you have got to control the use of crops; you have got to do all these things which are recommended in the President's message and in these voluminous reports to which I have heretofore referred.

That is precisely the situation we are in today. If the New Deal had financed its transactions in an orthodox manner the United States would have no problem of inflation today.

Secretary SCHWELLENBACH. Are you talking about me, when you say that we want to retain power?

Mr. SMITH. Pardon me?

Secretary SCHWELLENBACH. Are you talking about me individually wanting to retain power?

Mr. SMITH. Well, I did not say you individually, Mr. Secretary.

Secretary SCHWELLENBACH. Because I want to disclaim that. If anybody ever did not like to occupy public office, I did not, and do not.

Mr. SMITH. I am not looking at you. My opinion is that you do not intend to do anything wrong. But the road to hell is paved with good intentions, as you know.

Secretary SCHWELLENBACH. Yes; and there are a lot of public offices that are just about next door to the place you have mentioned, too.

Mr. FLETCHER. Mr. Monroney.

Mr. MONRONEY. Mr. Secretary, I hardly think that it is a mark of great political popularity to have to face up to the hard situations of rationing and price control; and that statement by Dr. Smith that any party that went into those would be kept in power is quite erroneous, because I think it is a most difficult thing to impose controls.

If controls should be necessary, why, then it is a mark of courage on the part of the administration to at least face up to the problem of what is happening to our economy through ever-increasing prices.

Secretary SCHWELLENBACH. If I may interrupt, I would like to say that I do not think any Secretary of Labor ever came up to the Hill and had all the labor organizations publicly announce that they were not in favor of something, and came up here and favored it the way I have. It is not a very pleasant task.

Mr. MONRONEY. I appreciate the courage of your position.

There is one thing I would like to ask about, since the cross-examination has dwelt rather at length on it, namely, the only reason these 10 points are being considered by the Congress and recommended by the President is because of the fact that the Marshall plan is being con-

sidered. You do not feel that the Marshall plan is the real reason for the discussion, at this time, of price control, do you?

Secretary SCHWELLENBACH. Well, it is the development which at this particular time made it necessary, in the opinion of the President, to call a special session. But certainly, if prices continue to go up as they have been going up in the last several months, it is necessary and it is essential that the Government face up to the problem. You cannot just pass it by and say, "I will see you next week." It is a problem that the Government has to face up to.

Mr. MONRONEY. The point that I am trying to make is that here we are talking about two issues, really. Perhaps they bear some degree of relationship, but they are not completely interlocked; that is, the Marshall plan calls for perhaps five or six billion dollars' worth of expenditures out of our economy for foreign aid; that is, in a 235 billion economy.

I cannot agree with the gentleman of the other side that the reason for the discussion of inflation control, or the reason for our inflation, is because of our shipments abroad.

I think we have two problems to consider: One, the problem of European aid; and second, the problem of what is happening to our own domestic economy because of domestic purchasing power here for local consumption.

Secretary SCHWELLENBACH. I testified yesterday, Mr. Monroney—I did not go into the question, because it is not yet possible to reach that point—but I testified that the Bureau of Labor Statistics' view is that the over-all effects of our foreign shipments have been relatively much, because of the fact that, while they are large amounts of money, they constituted a small proportion of our total production. And it is the feeling of the Bureau that, insofar as this stopgap aid is concerned, that has already been taken into account in the prices which are being charged and there will be no further increase as a result of that.

We have definite figures on the question of stopgap aid, and I cannot go along on that line beyond the point where we have the definite figures.

Mr. MONRONEY. The point I am trying to make is this: If it were not for the Marshall plan, and if the Marshall plan were not being considered, the administration would still be worried about the domestic situation on prices, would it not?

Secretary SCHWELLENBACH. Very definitely.

Mr. MONRONEY. And is it not true, contrary to the attitude of many members of the committee, that the President is not recommending a system of price control to be effective on January 1, or January 15, or February 1? He is merely saying that if the cycle continues to get worse we should have on the books plans, printed forms, and an organization ready to be thrown into gear at the point when inflation can become so disastrous to our economy that to ignore some extraordinary controls would be to risk the economy of the country itself.

Secretary SCHWELLENBACH. A very skeleton organization. There is no contemplation of setting up an organization such as the Office of Price Administration had as a preliminary to the use of price control and wage control.

Mr. MONRONEY. As I understood the President's message, nothing would automatically become effective in the way of even selective price

controls or selective controls until all other expedients to dampen the cycle of rising prices and increasing wages had been exhausted.

Secretary SCHWELLENBACH. Yes; that is correct.

Mr. MONRONEY. And that, realizing the gap of time of 4 or 6 months which it would take to get ready for such steps, the President thought it good policy to be ready with the fire extinguisher in the event the forest fire did come close enough to endanger the cities and the towns.

Secretary SCHWELLENBACH. That is correct.

Mr. MONRONEY. In the discussion of labor controls there is no thought or effort whatever in the administration to the effect that any control over wages would be put on any commodity that has not been subjected to a ceiling price; is that not so?

Secretary SCHWELLENBACH. Yes; that is correct.

Mr. MONRONEY. In other words, the only event in which wage controls would be imposed would be on that commodity which was under price control.

Secretary SCHWELLENBACH. With this exception. If you will read the message, there is added this language——

"In the message there is a statement concerning vital commodities basic to the cost of living or to industrial production, that are in short supply"—some language of that kind.

Mr. MONRONEY. The point I am making is that there is no thought on the part of the administration to leave the management of certain industrial lines absolutely free to charge any price they wish for their product and yet to clamp a ceiling on the labor force in that particular industry.

Secretary SCHWELLENBACH. That is true.

Mr. MONRONEY. Both would be subjected to the same rule?

Secretary SCHWELLENBACH. Yes.

Mr. MONRONEY. If no action is taken on any of these 10 points, or on a majority of them, what do you think will be the general increase that will be demanded by labor in the next 8 to 10 months?

Secretary SCHWELLENBACH. I have no indications that would enable me to answer that question. I notice that in the statement in the morning paper there was no indication of a definite amount by Mr. Murray. I take it—and I am just assuming this, as I do not know—that the question of the cost of living at the time at which the contracts expire would be a material factor in the determination of the increases which might be asked.

Mr. MONRONEY. You do anticipate, and in your testimony yesterday indicated, a continuing pressure for increased wages which, of course, ultimately means increased prices as well?

Secretary SCHWELLENBACH. To the extent that wages may be translated into price increases, yes. I do not agree, as I stated yesterday, with the attitude that has been taken to the effect that all prices were due to wage increases. I do not think that is in any way correct. I think that can be and is amply demonstrated by the facts as they exist.

Mr. MONRONEY. But you do believe that a continuing cycling up of wage levels will eventually have an impact on the price level?

Secretary SCHWELLENBACH. I have never contended to the contrary. There is a proportion of the price increase which is due to a wage increase. The price increase on coal was over a dollar per ton, and the increase in wages was 50 cents per ton.

Mr. MONRONEY. What is the general average of the industrial workweek at this time?

Secretary SCHWELLENBACH. 40.3, I believe. Let me check it.

Mr. MONRONEY. That is close enough. It is still around 40 hours.

Secretary SCHWELLENBACH. It is just a shade above 40 hours; 40.3.

Mr. MONRONEY. Then, if labor and management were to agree to a larger workweek, which would increase the take-home pay of the worker, in exchange for more hours of work, and would increase it by the time and a half, at the same time enlarging our production in a great many lines, would that or would that not be inflationary?

Secretary SCHWELLENBACH. Let me answer the first part of your question first, if I may. Our workweek is now 40.3 hours. I assume that that probably means a 42-hour week. But there are many factors which indicate that while you get more production by a moderate increase in the hours of work, you do not get proportionately more. If people work more, they produce more, but the output per man-hour decreases as the hours get very far above 40.

Mr. BUFFETT. Mr. Monroney, would you ask the Secretary to amplify that? I think that is a very important fact. What the reasons are for not getting an increase in production.

Secretary SCHWELLENBACH. Would you mind if I read the analysis the Bureau of Labor Statistics gave me on that question?

Mr. BUFFETT. It is all right with me. I think it is a very important question.

Secretary SCHWELLENBACH. It is in the form of a statement made by Mr. Clague on July 27. He is the Commissioner, Bureau of Labor Statistics.

Mr. BUFFETT. If the committee does not want it, I can read it.

Mr. MONRONEY. Could we put it in the record?

Mr. BUFFETT. Yes, that would be satisfactory.

Secretary SCHWELLENBACH. He goes into the questions raised in detail.

Mr. BUFFETT. That is fine.

(Statement of Mr. Clague referred to is as follows:)

STATEMENT OF EWAN CLAGUE, COMMISSIONER OF LABOR STATISTICS ON THE EFFECTS OF HOURS OF WORK ON EFFICIENCY, ABSENTEEISM, AND WORK INJURIES

A recently completed survey by the Bureau of Labor Statistics indicates that the 5-day week and 8-hour day tend to yield better results in terms of efficiency, absenteeism, and work injuries than did longer daily and weekly hours. In most instances, and up to a certain point, longer hours yielded higher levels of total weekly output. But the increase in output did not measure up to the increase in hours. As a rule, workers under wage incentives and at routine and repetitive jobs in which the workers were in complete control over the speed of operations were able to obtain only 2 hours of output for every 3 hours of work when hours exceeded 48 per week. Up to the 48-hour level, efficiencies were fairly well maintained, although the total weekly output level suffered from greater absenteeism and a higher incidence of work injuries. In terms of labor costs, hours in excess of 48 per week meant 4½ hours' pay for 2 hours of output.

The study did not permit a determination of the comparative effects of weekly hours of less than 40. Furthermore, because output data were rarely encountered for workers not under incentive systems, the data obtained apply almost entirely to workers paid under some form of incentive system, such as piecework, bonus system, or prescribed output levels for specified wage rates.

Absenteeism.—As a rule, absenteeism increased as hours increased, and particularly when a sixth or seventh workday was added per week. In part, the higher absenteeism was caused by a higher incidence of work injuries, and in part from the need for more rest or the urgency of personal matters.

This was particularly true for women. Their absenteeism rates were invariably higher than those of men, regardless of the schedule of hours worked. The most important reason for this was the need to tend to household duties in addition to the job in the plant. In some plants absenteeism of women on Saturday was as high as 15 or 20 percent.

Work injuries.—Longer hours usually resulted in a higher frequency of work injuries. Sometimes a strong safety organization was able to hold down the increase to match the lengthening of hours. But at times the injuries increased at great disproportions, regardless of managements' efforts. For example, in one plant an increase in weekly hours from 40 to 48 increased the injury frequency rate by 50 percent. The same percent of increase was observed in another plant when hours were raised from 48 to 54, and in a third plant where hours were increased from 54 to 60. Lengthening weekly hours from 48 to 60, by raising daily hours from 8 to 10, tripled the injury frequency rate in a fourth plant. Although the situation varied as between plants, higher hours usually brought with them a disproportionate increase in injuries.

Limits on weekly output.—During the war, the overriding emphasis was on output at any cost. But even on this basis, instances were found in which the output level during long hours was no better, and sometimes only slightly better, than very much shorter schedules. For example, the weekly output per man in a large forge shop, where work was heavy and hot, was no better during a 58-hour week than it had been during an earlier 50-hour week—5 days at 10 hours—and probably would have dropped still lower if the plant had not reverted to the 50-hour schedule. A plant producing shells produced only slightly more during a 60- and 66-hour week than it had at 40 hours. The output of the longer weekly schedules could have been achieved easily in 44 or 45 hours. As a general rule, workers at repetitive operations could have produced nearly as much in 48 hours—6 days at 8 hours—as they did during 54 hours or more.

Daily pattern of efficiency.—An analysis of daily output data indicates that the effects of fatigue on the part of the workers were not reserved for the overtime hours. During the 5-day, 40-hour week, daily efficiency tended to work up to a peak on Wednesday or Thursday, with only a slight drop on Friday. When daily hours were extended to 9 or 10, but still retaining the 5-day week, the midweek spurt disappeared, and one day was about as good as another. When a sixth day was added, usually of 8 hours, the daily output pattern dropped to a still lower level.

The pattern of hourly work schedules followed during the war was far from uniform. Some plants tried to retain the 5-day week but increased daily hours. Others maintained daily hours, but added a sixth, and some a seventh, day. Some plants tried operating around the clock with three shifts and subsequently swung over to two shifts of longer daily and weekly hours because of labor shortages. Others did exactly the reverse—tried to go as long as they could with the existing work force but made it work long hours and then switched to more and shorter shifts when it became clear that the longer hours were too fatiguing to yield the desired results.

Generally, the addition of a sixth day at 8 hours to a 40-hour week had little effect on efficiency, although absenteeism was somewhat higher, particularly for women. The depressing effect of the longer workweek made itself felt when daily hours were raised to 9, 10, or 11. The effect of the longer schedules varied with the type of work and the conditions under which it was performed. As a consequence, the results of the longer schedules were far from uniform. Nevertheless, as a rule, while hours usually were not so long as to depress total output below what it had been at 40 hours, the longer hours were not as effective—hour for hour—as the shorter schedules. American industry rarely attempted the 72- and 64-hour schedules which Great Britain had used early in the war—and had given up as ineffective.

Sunday work.—Sunday work as part of a 7-day week was found to be undesirable. Men who worked Sunday at double pay, frequently took off on some other day. Efficiency suffered substantially, even when daily hours remained unchanged at 8. One plant, on a 7-day week, was getting only 6 days' output for 8½ days' pay. Total output was just as good in 6 days when Sunday work was eliminated. In another plant, efficiency spurted by nearly 23 percent, and absenteeism dropped from 11 percent to less than 7 percent, when work on every other Sunday was eliminated for female workers.

On the other hand, work on every other Sunday was found to be preferable to irregular overtime for men, with hours sometimes as long as 15 per day.

Prewar, war, and postwar comparison.—In a number of plants it was possible to compare worker performance during the war with both prewar and postwar performance. With few exceptions, the workers studied worked harder during the war than they had before. Under piecework and other incentive systems, and with a war to win, these workers were as efficient at 48 hours as they formerly had been at 40. And when the war ended, and they reverted to 40 hours, their efficiencies increased. In part, the explanation for this may be that the workers tried to recoup some of the pay they lost because of the curtailing of hours.

The same effect was noted when a 5½-day week was substituted for a 6-day week without a change in daily hours. The output level for men was nearly as good during a 44- or 45-hour week as it had been under the 6-day week at 48 or 50 hours. Here again, the effect may be ascribed to the desire to make up for the lost pay, particularly when the last workday was short.

Degree of operator control.—The results described apply primarily to operations which are essentially routine and repetitive, and completely operator-paced.

Where the work was essentially machine-paced but not automatic, the findings as to efficiency held true to a lesser degree. In these types of operations, usually encountered on metal-working machines, the operator can influence output only during the relatively short period during which he removes processed materials from the machine and replaces them with materials to be processed. Here too, hourly efficiency decreased as hours exceeded 48, but to a lesser extent. But both absenteeism and work injuries increased.

In contrast, hourly efficiency was better during longer hours on automatic machines, such as screw machines. In these types of operations the worker feeds the stock into the machines and gages for accuracy of operations, but does not have to work at a fast pace continuously. Here hourly output during the longer hours was slightly better than during the shorter hours because nonproductive time (getting ready and cleaning up) was spread over a longer operating period. Nevertheless, absenteeism and injuries were considerably higher at the longer schedule of daily and weekly hours.

Coverage.—The survey covered 34 plants with various daily and weekly patterns of hours in a considerable variety of manufacturing activities. The effects of every pattern of hours were observed for a period of at least 6 months, and frequently for a year or more, for groups of identical workers who worked at the same jobs during each of the hourly patterns observed, and usually under a wage-incentive system. The qualifications for worker selection were set up in such a way as to exclude, as far as possible, the effects of all variables except working hours.

Mr. MONRONEY. I agree with you that hour for hour you would get more production from a 40-hour week than from a 48-hour week, but I do think that at this time, when the final answer to inflation is more production, that both labor and management might consider in collective-bargaining agreements the lengthening of the work week on a time and a half basis to increase that amount of production and that amount of consumer goods to help soak up the purchasing power that is rampant in this country today.

Secretary SCHWELLENBACH. There is this difficulty about it, Mr. Monroney. The coal miners are producing all the coal that they can get freight cars for to take it away from the coal mines. I mentioned yesterday that they have gotten the same production now which they had under the longer week. They are producing as much as they can dispose of because of lack of freight cars.

Steel is producing, on the basis of a 24-hour day—three shifts per day—97 percent of capacity, I believe. So there just are no more hours in the day which they could work if they wanted to.

The problems of steel, according to the statements of Mr. Fairless in the Iron Age—and I assume they are correct—is that the high price of scrap is the cause of their difficulty in the matter of prices.

I understand that automobile factories have been down, off and on, during the last 2 or 3 months, exclusively due to the lack of steel.

When you have coal producing all that the railroads can carry, when you have steel producing all that they possibly can produce, and still have automobile production down because of lack of steel, the addition of hours in either the coal industry or the steel industry or the automobile industry would not meet the problem at all. And those are the industries which—of course, automobiles go directly to the consumer—but coal and steel are the two industries which are looked upon as the source of necessary industrial supplies.

Mr. MONRONEY. Those are all the questions I have, Mr. Chairman.

Mr. BROWN. Mr. Chairman.

The CHAIRMAN. Mr. Brown.

Mr. BROWN. Mr. Secretary, I notice that the press quoted Senator Pepper as saying he was in favor of freezing all prices, including wages, at the level at which they are now. Would you care to comment on Senator Pepper's plan?

Secretary SCHWELLENBACH. No; I do not think it would be proper for me to discuss Senator Pepper's statement. I did not read it. I heard just a short radio comment about it, and I do not think I am in a position to comment on it. And I do not think the committee in one branch of the Congress would want me to discuss it.

Mr. SPENCE. Mr. Chairman.

The CHAIRMAN. Mr. Spence.

Mr. SPENCE. Mr. Secretary, it was said that if price control were repealed, production would soon meet the demand and prices would level off. That has not occurred, has it?

Secretary SCHWELLENBACH. Well, I will say that prices have not leveled off. I tried deliberately to avoid getting into a discussion of the question of what was said prior to the time when price control was repealed. I look at this problem as a problem which is with us now, and I think we have to face it.

As far as I am concerned, I am not coming up here saying that certain statements were made that were incorrect.

Mr. SPENCE. I think we all recognize that we are still in a vertical position.

Secretary SCHWELLENBACH. So far as the facts are concerned, there has not been a reduction in prices since last year. There has been a very decided upswing in prices.

Mr. SPENCE. Increased production, until it meets the demand, has a very great inflationary tendency; is that not true; because increased production increases the earning capacity, increases the purchasing power of the people, and while there is still a shortage, increased production is not the answer at all, until it meets the demand. In other words, increased production, of itself—which means increased earning power—would have an inflationary tendency; is that not true?

Secretary SCHWELLENBACH. I think that, if the purchaing power increases faster than production, the proposition you state is correct, but I could not accept it as being applicable in all situations.

Mr. SPENCE. If inflation is due to the purchasing power of the people and the scarcity of goods, as long as that scarcity remains and the purchasing power of the people increases, the tendencies toward inflation would be stronger and stronger, would they not?

Secretary SCHWELLENBACH. Provided they do not find other media on which to spend the money which they receive as a result of in-

creasing production. If you increase production without increasing the number of hours, and without increasing the pay, then, you are not adding to the inflationary pressures.

I was very much interested—if I may use this as an illustration—in the Saturday Evening Post last night. I believe it stated "The Marshall plan, the rat hole——" or something. I thought somebody was trying to prove it and so I bought the Saturday Evening Post, and found Mr. Clayton wrote the article, and that he was not trying to prove that. But in the same issue was an article dealing with the amount of money spent in the last year, on prints of fine paintings. A drug store in the city of New York did not have any goods to put in their show window, so they got some prints of fine paintings, and they are selling more paintings now than they sold drugs before.

Then the article went on to tell of the great development of the expenditure of money in the last year for such things.

You have people with money. Along with that, there is a scarcity of goods which they ordinarily would buy, or else the goods which they would ordinarily buy are very costly, so this introduction of prints of old paintings has just stepped into a void for a great many people and gave them an opportunity to spend their money on something which certainly was not in any way inflationary.

Mr. SPENCE. Well, price control seems to be generally denounced now, but is it not a fact that it probably saved the economy of the Nation? That if we had had no price control during the war, it would have cost us twice as much to fight the war as it did? All of the representatives of the Government were here, the Secretary of War, Secretary of the Navy, Secretary of the Treasury, urging that a strong price control be maintained in order that prices might not soar and imperil the very result of the war and the economy of the Nation. It seems to me there could be a good many virtues written on its tombstone which were not attributed to it while it was alive. What do you think?

Secretary SCHWELLENBACH. I would rather just give you the facts. You are asking for an opinion. I would rather just give you the facts concerning the increase in prices during the First World War as compared with the increase in prices during the Second World War. I think that will answer your question, and I would rather answer it upon the basis of the facts and let the committee draw its own conclusion than give you my own opinion.

(The information referred to is as follows:)

COMPARISON OF PRICE INCREASES, WORLD WAR I AND WORLD WAR II

During the period July 1914 to November 1919 (1 year after the end of World War I) wholesale prices rose by 115 percent, or at the rate of 1.8 percent per month. During the period August 1939 to August 1946 (1 year after the end of World War II) wholesale prices rose 72 percent or at the rate of a little less than 0.9 percent per month. Thus, wholesale prices actually increased only half as fast during World War II and the year following it as they did during the First World War when there was no effective price control.

Now if you divide up the World War II period to observe the effects of price control, you find that during the period August 1939 to May 1942, when price control really became effective, wholesale prices increased at the rate of a little less than 1 percent per month. From May 1942 to June 1946, when the decontrol process began, the rate of increase was less than 0.3 percent per month. Since June 1946 the rate of increase has been 2.5 percent a month.

Mr. SPENCE. Was there any other way to control prices during the war, except through actual legislative price control? I do not think the Government could have applied any other medium, and because it deprived the people of some of their liberties and because it made them restive, they turned against it. I do not think they have the same feeling now. I think they realize the great service it rendered, and I think they realize that if strong price control had not been maintained, perhaps there would be a difference in the economy of the Nation today. Do you not think that is true?

Secretary SCHWELLENBACH. We certainly know that after price control was abolished—and I am not going to enter into an argument about when it was abolished or who did it—but we do know that prices have gone up rapidly and consistently during this last year and a half. Those facts are something from which the committee can draw a conclusion. It is just like a lawsuit. You do not have lawsuits unless you have disagreements. You do not have a democratic Congress—with a small "d"—unless you have some differences of opinion between its Members. As far as I am concerned, it is perfectly all right for people to disagree. I made my living for a good many years because people disagreed.

Mr. SPENCE. It was a very difficult thing to attain because it was unpopular with the people, and the pressure groups were here to wreck it from the very start, which they finally succeeded in doing, and I doubt very much that you could put it back in peacetime. It is a good deal like Pandora's box. But it seems to me we would have been better off if we had maintained a strong price control for some little time rather than to do what we did, and I do not think it is a reproach to a Member of the Congress that he was for it. It nearly wrecked me, but nevertheless at that time I was for it, and I think probably we made a mistake in weakening it as it was weakened, and I think that the results which have occurred have largely been due to that.

Now we hear "Who brought on inflation?" Everybody knows what brought on inflation. It was the war. We went into the manufacture of munitions and other goods necessary for the war. We did not manufacture consumer goods. There was a dearth of consumer goods, and a great purchasing power in the hands of the people, and naturally it resulted in an inflation of prices. If the Democratic Party is to be blamed for that, we ought to give them some little consideration for the economy which they established to make the war effort effective. I do not think we should be reproached for being for price control. If that is a New Deal measure I think we can assume that very well.

The CHAIRMAN. I think most of those on this committee went along with price control during the war because it was necessary. As I recall, the complaints were not with respect to the legislation which authorized the power to control prices; most of the complaints were aimed at the manner in which price control was being administered.

I recall very well that this committee, by an overwhelming majority on all occasions during the war, voted out bills to continue price control. The only disputes we had, generally speaking, were as to the manner in which price controls were being administered.

Mr. SPENCE. I agree with that, Mr. Chairman, but——

The CHAIRMAN. We tried to correct the abuses, and every year, when we came back, we had to write language which was clearer than the language preceding it, in order to clarify our intent, although we all agreed that the language of the previous act was about as clear as any language could be written.

Mr. SPENCE. I agree with you, Mr. Chairman. I agree that there were inequalities and inconsistencies in the administration, but there were also weakening amendments passed by the Congress. Every time it came up, there were some amendments which weakened it.

The CHAIRMAN. Well, the weakening amendments, of course, were just a matter of opinion. I do not want to get into a political discussion, but you mentioned that the Democratic Party cannot be reproached for what it did, but, if anything was done to weaken price control, of course, we must have in mind that it was done when the Democrats were in control of both Houses of Congress, and under a Democratic President who voluntarily took off most of the controls. So I hope we do not get into a political discussion as to why the controls came off and the effective date of the taking off of controls, because the Congress gave the President a bill which he might have signed, and if he had signed it, the contention was that we would have continued high production at the same time without going sky high.

I remember one meeting we had at 2 o'clock in the morning after the Members had agreed on that bill. There was much back slapping because of the fine job we had done to continue production at a very high level at the same time preventing prices from going sky high. I quite agree with you that if that bill had been continued, there would have been a gradual sloughing off of controls so that there would have been no shock to our economy and you will recall that most of the Republicans absolutely repudiated the bill which was finally sent to the White House and signed. So the Republicans surely cannot be blamed for that second bill, which it is conceded killed price control. We had nothing to do with it; we repudiated it and made statements against it on the floor, but the Democratic majority put it across.

Mr. SPENCE. I did not initiate this suggestion of politics. It was brought in before I suggested it. I will say that price control was the best friend the Republican Party has had.

The CHAIRMAN. If you say that the manner in which price control was administered, it was the best friend of the Republican Party, I will agree with you.

Secretary SCHWELLENBACH. I would like to say this, Mr. Chairman, if I can make sure that the record shows I did not take part in that colloquy: My feeling about across-the-board price control is this:

Yesterday we talked about forgetting things which happened in the past. I would like to start right now. I would like to assume that the Congress would write a perfect price control bill. Absolutely 100 percent perfect. And that the President would sign it and appoint the best man in the United States, who is capable from every point of view to administer it, and to appoint his immediate assistants.

Time consumed in building up an organization for across-the-board price control would be so great that I do not think it would be satisfactory to anybody. That is my point of view about an across-the-board price control, and I believe this selective system is more satisfactory than the across-the-board system.

The CHAIRMAN. Mr. Kunkel.

Mr. KUNKEL. I think the President evidently had in mind what Mr. Spence said about the restiveness of the people concerning controls and their desire for lower living costs. I have been trying to figure out what his message meant, also from the statements made by the Cabinet. So far I have come to the conclusion that what he wants are price controls on everything you buy and not on everything you sell. It is purely a problem of meeting the public demand. But when it comes to writing that kind of a law for the statute books, it is rather difficult.

Could you tell me how the shortage of freight cars came about? Is that a hangover from the war, and, if so, what caused it?

Secretary SCHWELLENBACH. My understanding of it is as follows: During wartime the railroads went out and picked up every old freight car they could find. It did not make any difference whether it had sides on or not, or a flat wheel or anything else. They just went out and put them into use. And we used them during the war in order to transport war materials from the various factories to the points of shipment on the coast.

Using up that number of old freight cars has left them in a position where they have not yet been able to catch up with the demand for freight cars.

Now, I understand—and I do not say this in a critical way at all—that they were very hesitant about buying new freight cars right after the war ended, because they did not believe our economy was going to go along on such a high productive rate as it has been, and for a few months they were delayed. But primarily, it was due to using up freight cars during the war.

Mr. KUNKEL. Was it due in part at least to a failure to grant a priority for freight cars during the war?

Secretary SCHWELLENBACH. That is not my understanding of it.

Mr. KUNKEL. In other words, they got all the priorities they asked for for freight cars during the war; is that what you mean by your understanding of it?

Secretary SCHWELLENBACH. Yes; that is the way I understand.

Now, I am not making that as an absolute statement, because the question of what priorities were granted to railroad companies during the war is not within the direct purview of my knowledge. I have talked to some railroad people about it, however.

Mr. KUNKEL. Mr. Secretary, my personal view is that you cannot divorce shipments to Europe, whether in the form of direct aid or purchases by European nations in this country, from the price level in the United States. Naturally, the bulk of the buying in the United States is by the home market, but when you superimpose exports which at one time this year were running at the rate of $22,000,000,000 per year on top of a large domestic demand, that added volume of purchasing is bound to be reflected in your domestic price level, and to the extent that it increases, it is going to be reflected, I would say, in something resembling a geometric proportion. Would you not agree with that?

Secretary SCHWELLENBACH. The Economic Council, in the midyear report, stated that while it had some effect, it was more psychological than anything else. They did not consider it as a direct effect.

After I knew I was coming before the committee, I asked that a study be made, assuming that the amount the President is asking for in stopgap aid were granted, as to what the effect of that would be, and the answer I received was that so far as prices are concerned, this amount has already been discounted, and that it would have no further effect.

We see something happen which we think is going to involve the stock market in New York. Then, surprisingly enough, it does not change it at all, because they have known about it for a couple of weeks and they have already discounted that particular fact.

Mr. KUNKEL. My thought is that if you attempt to divorce the two, or minimize their effects, you are never going to reach a satisfactory solution to either problem, because there is a direct interrelation. You said it amounts to a lot of money, but it does not amount to so much in goods. Do you know how much wheat was shipped out of this country in the year from July 1946 to July 1947?

Secretary SCHWELLENBACH. No; I do not.

Mr. KUNKEL. It was 610,000,000 bushels, and that is a little more than chicken feed. That is 40 percent, approximately, of the largest wheat crop we ever had in the last few years. Do you not think that would be apt to have an effect on the price of wheat?

Secretary SCHWELLENBACH. Assuming that it was 610,000,000 bushels shipped out——

Mr. KUNKEL. Or contracted for.

Secretary SCHWELLENBACH. Or contracted for. Could you tell me what part of it was contracted for and what part of it was shipped?

Mr. KUNKEL. No; I cannot give you a break-down. I merely have the total figure.

Secretary SCHWELLENBACH. Well, I can see where that would have some effect. We used to consume 650,000,000 bushels. We figured 100,000,000 bushels of carry-over. Now, you have 1,400,000,000 bushels produced this year, if I am not wrong in my figures.

Mr. KUNKEL. I am speaking of July 1946 to July 1947.

Secretary SCHWELLENBACH. You still have 690,000,000 bushels used for domestic consumption.

Mr. KUNKEL. It cannot be used for domestic consumption if we continue to ship it out of the country.

Secretary SCHWELLENBACH. The point I make is that despite the fact that we have the shipment—do not get me wrong, I am not contending that it does not have any effect upon wheat prices—but the point I am making is when you still have 690,000,000 bushels over and above the amount of foreign shipments——

Mr. KUNKEL. My contention is that the effect is sufficiently large that if you do not work the two problems coincidentally, you are never going to solve either of them correctly; and by attempting to discount the relationship, you are performing a great disservice to the American people and to any rational solution of either problem. That is the reason I do not like to see it ignored. I am not trying to emphasize it for any other reason in the world, but I think the two are so closely connected——

Secretary SCHWELLENBACH. When I use the word "discount" I hope you understand the way in which I used it. It is just discounted because it has been known and it has already had its effect.

Mr. KUNKEL. In other words, you figure that $610,000,000 for emergency aid has already been discounted in the market, as to price. I think that is very likely true, but at the same time there is talk of other programs, and, therefore, it has to be taken into account in any program we put into effect, either on aid or on prices.

Take pig iron, for instance. The Secretary of State wanted 32,000 tons of pig iron sent to Italy during a 4-month period. That sounds very small, does it not? But when you take into account that last year pig iron exports were 85,000 tons to every country in the world, and this is 32,000 tons to Italy during a 4-month period, it looms pretty large, and that in addition to the fact that we are still subsidizing pig iron in order to cure the cast-iron soil-pipe shortage in this country, and the effect cast-iron soil pipe has on the housing problem begins to look awfully important, to me, at least. That is how even the little items in the foreign-aid program may tremendously affect the economy here at home. I think you have to take the whole picture into account.

Secretary Anderson said that we could not export over 400,000,000 bushels this year without an impact on the domestic economy. Of course, we are running into 2-year periods here. Those figures I gave you are not for this summer.

Now, I would like to ask you one other question: Do you agree that there is an interrelation between all prices? All prices are interrelated in one way or another in a free economy; is that not correct?

Secretary SCHWELLENBACH. I do not think you can say all; but I think you can say as to a very large percentage of them; yes.

Mr. KUNKEL. A pretty direct interrelation?

Secretary SCHWELLENBACH. Yes.

Mr. KUNKEL. And if you controlled some and did not control others, the interrelation still exists, does it not?

Secretary SCHWELLENBACH. Yes; that is true.

Mr. KUNKEL. As I understand this program which is being developed, the proposal is to have the President pick out items at will, either on the basis of judgment, politics, or something like that, and then some one item is to be administered by the Secretary of the Interior, and he is to go along on that. Steel is to be administered by the Secretary of Commerce, and possibly you will have something to do with the administration of any wage controls that might be imposed. In other words, you will have about 10 different people working on all sets of different items without any correlation between the different groups.

When Mr. Chapman came up here testifying that controls should be placed on oil, it immediately developed that controls on oil involving allocations to the steel industry would have an effect on steel. You have probably heard that the price of scrap iron has a direct relation on the price of steel; therefore, if you imposed a ceiling on steel you would probably have to impose a price ceiling on scrap iron.

How are we going to get at this, if everybody in the Cabinet and in the agencies of Government take a whack at this commodity and that commodity, without any attempt to study the relationship between the various commodities?

Secretary SCHWELLENBACH. I would assume that undoubtedly there would be correlation between the various departments on problems which might arise.

Mr. KUNKEL. You say there is a serious emergency right now in the price structure; is that not correct; an inflationary trend?

Secretary SCHWELLENBACH. No; a trend which creates a serious situation.

Mr. KUNKEL. And yet your proposal is to ask for some kind of selective controls. You do not know how, when, or where they will be administered, and you have not, so far, made any suggestion on when, how, or where they are to be applied. Then, you are going to go along for 3 or 4 months trying voluntary methods. In the meantime, you are going to set up a skeleton force which you have more or less indicated would not have the ability to carry through in the real enforcement, and, therefore, you have more time elapse before you could get action on that.

Secretary SCHWELLENBACH. You are right. I was talking about the force that would be set up prior to the time when controls are set up.

Mr. KUNKEL. I think you are going to have an awful time, when you have the Secretary of Interior fighting for steel, and other people fighting for steel, and everybody else having one or two items to control. You will have to have some system of allocation between the Cabinet members, will you not?

Secretary SCHWELLENBACH. The Cabinet gets along now.

Mr. KUNKEL. They might now, but I mean after the beginning of this new system there is liable to be discord, is there not?

Secretary SCHWELLENBACH. I do not think so. We have a lot of problems and we solve them.

Mr. KUNKEL. I would like to have a little more idea of the program. Those are some of the things I have in mind.

Secretary SCHWELLENBACH. Of course, when we talk about allocation of these other items, I could not consistently object to some allocations among the Cabinet members, but I do not think it is necessary and desirable, because we have a very fine relationship.

Mr. KUNKEL. If you have allocations, you immediately start creating unemployment, do you not?

Secretary SCHWELLENBACH. Not necessarily, sir.

Mr. KUNKEL. Why not? If you cut off the source of supply to a given factory, or a given industry, what happens to the people who were working in that industry?

Secretary SCHWELLENBACH. You have a frictional employment; yes; but you do not have a reduction in your total number of employed.

Mr. KUNKEL. It is not very fictional for the fellow who has lost his job, is it?

Secretary SCHWELLENBACH. I said frictional, not fictional.

Mr. KUNKEL. What do you mean by frictional?

Secretary SCHWELLENBACH. That is a term which is used in the matter of employment. You have seasonal unemployment, you have changing of jobs—moving from one place to another. We always have a certain number of unemployed people in this country.

Mr. KUNKEL. But the power to allocate gives the Government the power to create unemployment when and wherever they decide; is that not correct?

Secretary SCHWELLENBACH. I do not think that is a correct statement; no.

Mr. KUNKEL. Well, you differ from all the people in the United Kingdom on that, because that is what they are doing over there as a direct Government policy. And they all admit that it creates unemployment, that that is what it is intended to do, in the first place, and that it is being done cold-bloodedly to channel labor from the nonessential fields into the fields manufacturing for export or for essential home uses. That is part of the policy, but the power to allocate carries with it that power. You can put the businessman out of business and the worker out of work.

Secretary SCHWELLENBACH. I think your statement that the power to allocate is the power to create unemployment is too broad a statement. I cannot accept that statement. When you talk about the situation in the United Kingdom, they have very broad controls over all parts of their economy, and nothing comparable to that which is proposed by the President.

Mr. KUNKEL. But they do not need any other control except the power to allocate to create unemployment. That is the only one they use in that connection.

Secretary SCHWELLENBACH. Well, it is a question. I do not want to be in the position of saying that we have not watched it over there. I do not care to get in the position of disagreeing with you, but I just cannot accept that broad statement at this time.

Mr. KUNKEL. Here is the thing that is worrying me about this whole program. It is something vague; you have no real idea of what you are going to do, how you are going to administer everything, and yet it is going to affect every individual in the United States to the extent the Government wants it to affect them.

That is all.

Mr. FOLGER. Mr. Chairman.

The CHAIRMAN. Mr. Folger.

Mr. FOLGER. Mr. Secretary, I want to ask you a question or two in connection with your prior testimony, which I do not fully understand.

You say:

> Certainly the farmers are not to be blamed for the increases in the cost of food.

Then you speak of the weather, and then—

> Nor can they, even if they all joined up to try, stop the rises in prices which come from the commodity-market speculation.

Does that contemplate bidding on the price of wheat and corn on the stock markets, as well as other market speculation?

Secretary SCHWELLENBACH. That is what I am talking about; yes.

Mr. FOLGER. I do not know that you can answer this question, but why do we permit that? That is, to buy wheat now and bet that it will be $3.60 a bushel, or any other price? Does that not in itself have a tendency to manipulate the rise in the prices of foodstuffs? That practice goes on in a somewhat mythical market.

Secretary SCHWELLENBACH. My information concerning that results from a rather extended hearing we had in the Senate Committee on Agriculture, I think, in 1938 or 1937. My understanding is that it is recognized that farmers and warehousemen are entitled to hedge

against a possible change in the price of the commodity that they produced or have bought and put in a warehouse, and that it is in the nature of insurance.

The farmer who produces a bushel of wheat does not have to sell it the next day. He has an opportunity to hold it until such time as he thinks he wants to sell it, and he takes out a policy of insurance by hedging on the market.

In order to have a market in which this operation may be carried out there has to be a certain amount of speculation in that market or it would not operate. My understanding is that there were sold over five times the number of bushels of wheat that had been produced in this country. Now that is no longer hedging. That is not a legitimate amount of speculating to create a market. That is just pure and unadulterated speculation.

Mr. FOLGER. That is what I am talking about—that very fact that probably four or five times as much wheat or other commodities are speculated upon as produced.

Secretary SCHWELLENBACH. It is my understanding that this year it is five times as much.

Mr. FOLGER. Now, referring to the same situation, in your testimony you say:

> Meanwhile, nonagricultural prices continue to creep up month by month. The same speculation that has driven up grain and livestock prices has been at work on hides, raw cotton, scrap steel, and other basic raw materials.

How is that done? Is that in the livestock market that we have in Chicago and these other places, where they bid up the prices of livestock?

Secretary SCHWELLENBACH. Yes. St. Louis, Kansas City——

Mr. FOLGER. But you give it as your opinion that—

> there is no major segment of the price structure in which we can confidently expect declines in the near future.

To what is that due, Mr. Secretary? This same speculation in the price of these commodities?

Secretary SCHWELLENBACH. In part, yes.

Mr. FOLGER. That is all.

The CHAIRMAN. Doctor Talle.

Mr. TALLE. Mr. Chairman——

Secretary SCHWELLENBACH. I could add a little amusing incident with respect to this commodity business.

We had heard the witnesses before our hearing for about a month, and everybody was on a friendly basis. I met one of the heads of one of the markets out in the hall, and I said, "Don't you think that some fine morning, when nobody was looking, some poor little speculator might sneak in by the back door and really speculate on your market?" He said: "Oh, no; nobody ever speculated on our market." That was the position they took.

Now I think they were mistaken in taking that position; that they should recognize the facts as they are and try to eliminate, insofar as it is possible, speculations which have their effect upon prices and go beyond the legitimate hedging and such other operations as are necessary in order to maintain a place where legitimate hedging can be carried out.

I am sorry, Dr. Talle.

Mr. TALLE. That is all right.

Mr. Secretary, when I was listening to the news broadcast last evening I read your testimony of yesterday, and I turned to page 8, at the bottom of the page. I quote:

> It is my belief that labor will cooperate in this effort if given some real assurances that price rises will be checked. But I have little hope that organized labor will be able to keep from asking for sizable wage increases if such assurances are not given.

Your words were rather prophetic, I may say.

Then I turn to page 9, the last sentence in the first paragraph:

> The full variety of efforts which the President has outlined is necessary to provide the assurances which labor will require.

That would mean all of the 10 points, would it not?

Secretary SCHWELLENBACH. Nine points first.

Mr. TALLE. And not No. 10?

Secretary SCHWELLENBACH. No; that is not contemplated until we see whether or not it is possible, with the use of the first nine points, to stop this rise and bring it down.

Mr. TALLE. You want to play the game of tenpins, but you think you can do it with nine.

Secretary SCHWELLENBACH. Well, it is hardly a matter of tenpins.

Mr. TALLE. Well, I gather that the words mean all 10, because the language does say "the full variety of efforts which the President has outlined," and that would be 1 to 10, inclusive.

Secretary SCHWELLENBACH. If you take it out of the context and just read that one sentence, that is right. But I think I made plain in my statement—and I have attempted to make plain on numerous other occasions when I was being questioned—what I meant.

Mr. TALLE. Well, I do not want to put words in your mouth; I just want to know what you mean.

Secretary SCHWELLENBACH. I am sorry. But if you just take that one sentence out of its context it does not express what I mean.

Mr. TALLE. You would not use point 10 until you had tried the other 9; is that correct?

Secretary SCHWELLENBACH. During the period which was necessary to see if it was possible to bring these price increase to a halt and to head them downward.

Mr. TALLE. Would that be a sort of trial-and-error period?

Secretary SCHWELLENBACH. Well, it would be a trial period; I hope there would not be too many errors.

Mr. TALLE. As to that statement on the 6th line of page 9—

> Labor cannot reasonably be asked, however, to bear a solitary burden in the anti-inflation effort.

Will you explain what you mean by "solitary burden?"

Secretary SCHWELLENBACH. Yes.

It is my belief—the gentleman may disagree with me—that a very definite, determined, calculated effort has been made to place the entire burden for increasing prices upon wage increases. I think the general public as a whole, around the country, if you ask them why prices are high, will talk about other things, but generally speaking they will say "it is those wage increases," because every time anybody gives a wage increase—like in the case of the New York dairy business

which I used as an illustration yesterday—they raise the price of their product and attempt to tie it primarily to wages.

I will say this: U. S. Steel, when they increased their prices last, did not put wage increases at the head of the list. They talked about scrap iron and a few other items, and then labor.

I do not think the facts just fit the assertion that prices are increased solely because of wage increases. I believe wage increases play their part, but I do not believe that the general impression, which the people have gotten as a result of what has been said during the last period since the war, that wage increases were solely and exclusively the cause of price increases is a fair one or a proper one, and I do not think it gives the whole picture.

That is what I am talking about when I say that labor should not be the one to bear a solitary burden.

Mr. TALLE. What I wanted to make sure was that you did not want to leave the impression that under conditions of inflation everyone is not hurt. As a matter of fact, everybody is hurt because the dollar is the yardstick of value.

Secretary SCHWELLENBACH. I have a paragraph in my statement specifically relating to that, in which I say that labor itself is more hurt by inflation than anybody else.

Mr. TALLE. Last Monday I asked the Secretary of Commerce about a matter that Mr. Kunkel brought up a moment ago—the matter of allocation—and he agreed that unemployment would follow. I think the testimony would show that. Then I asked what the Government would do with the people who lost their jobs, and he said—and I think I am quoting him correctly—that there is a shortage of labor and that they might get other jobs.

That raises the problem of the mobility of labor. That is what you refer to, I think, when you talk about frictional, is it not?

Secretary SCHWELLENBACH. That, and seasonal.

Mr. TALLE. Yes. But is that not a very serious problem at a time like this, when the housing shortage is so bad? Adam Smith said, way back in 1776, that humans are, of all baggage, the most difficult to transport.

Secretary SCHWELLENBACH. I am sorry; I did not hear you.

Mr. TALLE. I say, Adam Smith said, back in 1776, that humans are, of all baggage, the most difficult to transport; that inertia will hold a person where he is, for many reasons—not only inertia, but family ties, neighborhood feeling, and so forth—and when a person fears that he cannot get a home somewhere else it is a pretty serious thing to take a man's job from him and ask him to take a job in some other industry somewhere else where he might have to raise a tent in order to obtain shelter from the sun and rain, in his new job.

Secretary SCHWELLENBACH. I think that your assumption that the unemployment effect is going to be of a substantial nature is incorrect.

With the demand for labor at the present time being what it is I see no great problem involved. Certainly, if I did I would not be here advocating unemployment. The U. S. Employment Service has made a survey concerning that portion of the problem, and they do not believe that it is a difficult problem.

You assume that because they do not allocate steel to a certain factory that factory is going to close down and people are going to be unemployed. I can pick out, I have no doubt, a number of factories

where the use of steel is essential, but such allocations as are referred to by the Secretary of Commerce, in my opinion, are intended for the exact opposite situation to which you refer and which would create unemployment.

As I read his testimony—and I did not read the questions and answers, but I did read his statement—the thing that he was interested in, in the allocation of steel, was to get at and reach the problem of the grey market.

Mr. Talle. A major point in his testimony centered around the differentiation between essential and nonessential uses.

Now, whether a thing is essential or nonessential will depend upon somebody's judgment, and, if allocation powers are set up, whoever has the power to allocate has the power of life and death over the businesses and plants using certain materials. That is inescapable, as I see it.

Mr. Folger. Dr. Talle, will you yield?

Mr. Talle. I yield.

Mr. Folger. Mr. Secretary, I read an article, a day or two ago, in which it was said that a manufacturer stated to a committee here in Washington that he would like to see allocations and rationing come back—something that he thought he would never come to. But he was unable to buy steel—it just happened to be steel—to carry on his business because he was not the kind of a customer some manufacturer wanted. They were allocating, on their own motion, steel to others and were leaving him out.

That would be an ex parte allocation—and, as such, unfair—would it not, and probably would be more dangerous than an allocation by a disinterested person? That is a sort of an arbitrary refusal to sell to a man, is it not, to say to him: "You have not been a customer of mine long enough"?

He is put out of business. But he would be protected, in that instance, if he could go to some authority and get an allocation of steel which that authority thought was fair for his business.

What I am suggesting is that we are not free from that allocation, even though we have no allocating authority in the Government. In other words, they allocate the materials themselves to suit their own notions.

Secretary Schwellenbach. Assuming that steel is essential in an industry that is not getting it now, it would get it by driving it out of the gray market.

You were saying—I did not read the statement of this gentleman.

Mr. Folger. What he said was: "You have not been a customer of ours long enough. We have to first serve the customers who have been dealing with us for a longer time than you have."

Secretary Schwellenbach. But, assuming that steel is essential for the operation of this business, there will be unemployment in the essential business over on the other side, where it is just as essential to have steel.

Now, the question of mobility is a question which you have to look into in relation with the supply and demand of the labor market, and, according to the United States Employment Service's survey—a rather quick survey, I will admit—there is no serious problem of labor supply or mobility at present.

But you will realize that when you take steel from factory A and place it in factory B, if steel is essential to both of them, somebody is going to be unemployed at factory A, and there is no increase in unemployment as a result of that sort of transaction.

Mr. TALLE. The unfortunate thing about it is that somebody is going to be hurt.

Secretary SCHWELLENBACH. Well, they are being hurt now. The employees of a factory which is shut down because it cannot get steel are being hurt right now.

Mr. TALLE. I agree.

Secretary SCHWELLENBACH. Not very badly hurt, according to the USES survey. They have gotten jobs. But assuming that they want to work in that particular factory which is being deprived of essential steel now, they are being hurt right now. I would not want the task of choosing who is going to be hurt, but it seems to me that it is much more important to consider the general welfare, and not add to the unemployment at all and not hurt anybody by having them unemployed in the sense of more than mere frictional unemployment.

Mr. TALLE. The Secretary of Commerce said that we have always found ways of taking care of people who do not have jobs. I might have pursued that a little further, but I did not do it.

I agree with my friend Mr. Folger that we have allocations now and that it is done both in private business and through the Government.

I will not take up the time of this committee to recite what I did recite to the Secretary of Commerce the other day. But I do want to report that in spite of having worked morning, noon, and night, since the 24th of September, to get some pipe which is in existence in Yonkers, N. Y., and Belle Mead, N. J.—pipe that has been allocated and paid for, but has not yet been delivered, not 1 inch of it, to the Middle West—I have been unsuccessful in the attempt.

That pipe was needed for watering cattle so that we might preserve those herds and furnish some additional meat for the market, and meat is certainly one of the very important items in the food basket, as you mentioned at the outset. So I will beg you for your assistance, too, Mr. Secretary, in getting the WAA to jar loose some of the pipe which is serving no purpose whatever but which even in the dead of winter might be used to some degree for drilling wells to furnish water to livestock in the Middle West.

Secretary SCHWELLENBACH. Do you want me to take the matter up?

Mr. TALLE. If I can enlist your help.

Secretary SCHWELLENBACH. I will be glad to help.

Mr. TALLE. Thank you.

The CHAIRMAN. Mr. McMillen.

Mr. MCMILLEN. Mr. Secretary, there was a good deal in the newspapers during and subsequent to the negotiations between the captive coal miners and, particularly, United States Steel and it was reported that the president or the chairman of the board of United States Steel, at least during or subsequent to those negotiations, said that a rise in the wages paid miners would not bring about, or would not necessarily bring about, an advance in the selling price of steel. Furthermore, that such action was not inflationary.

Now, you were in a position to know. I would like to have clear in my mind whether those statements were made, during those negotia-

tions or subsequent thereto, by any of these men representing those companies.

Secretary SCHWELLENBACH. Was that during the negotiations last summer between United States Steel and Mr. Fairless and the Hanna Coal Co.?

Mr. McMILLEN. I can't quite hear you.

Secretary SCHWELLENBACH. And this man from the Hanna Coke & Coal Co.? My understanding was that the two were signed up first. That is what you refer to, is it not?

Mr. McMILLEN. No. I am asking you if you have any information—and you should know—to the effect that these men, Fairless and Olds, and others, represented that a rise in the price of labor for mining coal would not necessarily—perhaps would not—bring about a rise in the price of steel, and, furthermore, whether such action would or would not be inflationary.

Were such statements made by those men or not? I think you would know about that, and I want it cleared up in my mind. I want to know what their opinion about that was. If they did make those statements, I want to know about it.

Secretary SCHWELLENBACH. I think Mr. Olds gave out a statement afterward. I am just as certain as I can be that there were no statements made to any member of the Government about those negotiations. If there had been, I would have heard about it. I do not like to get into personal matters, but at that particular time I was in the hospital, and, while we had a man talk to the people after they got through, we made no effort toward conciliating because the reports that were made at that time were to the effect that they were going to sign the contract and it was not necessary for the Conciliation Service to intervene. So we did not sit in on the conversations. But considering the fact that I cannot answer you directly—being out at Bethesda Hospital—yet I am just as confident as I can be that nobody in Government met with those people.

Mr. McMILLEN. I am not referring to any representative of Government at all. I am referring to these representatives of the United States Steel Corp., in particular, who, according to newspaper reports, said that a rise in the price of coal labor would not bring about a rise in the price of steel. And, furthermore, that such a rise would not bring about additional inflation. Have you any information about that particular question?

Secretary SCHWELLENBACH. I read articles in the newspapers. Now, let me get you straight. When you talk about the president, you are talking about the president of United States Steel; is that correct?

Mr. McMILLEN. Yes.

Secretary SCHWELLENBACH. That is where I got entirely off.

Mr. McMILLEN. Yes; the president or the chairman of the board.

Secretary SCHWELLENBACH. Of United States Steel.

Mr. McMILLEN. Yes. Did they make certain representations during or subsequent to the settlement of those negotiations?

Secretary SCHWELLENBACH. I understand—and I have a recollection of having read—that there was a statement in the papers by Mr. Olds. I do not think Mr. Fairless gave a statement. And I do not think the man from the Hanna Coal Co. gave a statement—I do not know his name.

Mr. McMILLEN. Well, do you know anything further?

Secretary SCHWELLENBACH. We have a clipping service. We can get those statements for you if you wish.

Mr. McMILLEN. No. I do not want to cross-examine you, Mr. Secretary, but I do think we ought to understand one another.

I referred to the articles in the newspapers which you are mentioning now. From your information, do you know whether or not Mr. Olds or any representative of United States Steel or any other steel company made such statements?

Secretary SCHWELLENBACH. Only that I read them in the newspapers.

Mr. McMILLEN. You only know what appeared in the newspapers?

Secretary SCHWELLENBACH. Yes. I was out at Bethesda Hospital for several weeks and I was not allowed very many visitors except absolutely essential visits with reference to the work at the office. During that period of time I got my information from the newspapers.

Mr. McMILLEN. Well, I assumed that in your position as Secretary of Labor you would know what the attitude of those men was toward that question and what, if anything, they represented or said about it. In your position of Secretary of Labor I thought probably you could clear up in my mind whether or not those men did make those statements, so that I could appraise it as I wish.

Secretary SCHWELLENBACH. What you are really asking me is whether or not the newspapers correctly reported Mr. Olds and Mr. Fairless.

Mr. McMILLEN. That is right.

Secretary SCHWELLENBACH. My answer to that is that I do not know because I was not present at any time during those negotiations.

Mr. McMILLEN. That is all.

The CHAIRMAN. Mr. Buchanan.

Mr. BUCHANAN. No questions.

The CHAIRMAN. Mr. Banta.

Mr. BANTA. Mr. Secretary, you said a moment ago, in answer to Mr. Monroney regarding coal production, that coal is being produced as rapidly as it could be carried from the mines.

Do you happen to know to what extent the use of coal cars in the movement of coal to seaports for export affects the moving of coal from the mines for the domestic market?

Secretary SCHWELLENBACH. No, I do not. I can get those figures, if you wish.

Mr. BANTA. I am being told, by persons in my section of Missouri, that the movement of coal to seaports for export ties up a car so many more days than a car would be tied up in carrying a load to a domestic market that they are unable to get coal in an area where they are 150 miles from the coal mine.

I am wondering if they are giving me the right information and if that is the reason why they cannot get coal—that coal cars are tied up for so long in the transportation of coal to the seaports for export that they are not delivering to the domestic market.

For instance, they say it takes 10 or 15 days for one car to take one load to a seaport whereas in that same time it can make four or five trips to the domestic market.

I want to know to what extent that operation is affecting the delivery of coal to the domestic market.

Secretary SCHWELLENBACH. I do not know, but I can find out.

It seems to me I ought to be able to get an answer to that question very quickly from the Office of Defense Transportation, and I will be glad to do it. I raised the question——

Mr. BANTA. I will be very glad to have it, Mr. Secretary.

Secretary SCHWELLENBACH. May I get it and give it to you?

I do not want to be cross-examined about it because all I will get is what the Office of Defense Transportation has on the matter. I will be glad to get those figures for you.

Mr. BANTA. Thank you. That is all.

Mr. BUFFETT. Mr. Secretary, after this morning's session you probably will be a candidate for another week at Bethesda. Is that right?

Secretary SCHWELLENBACH. No; I enjoyed it.

Mr. BUFFETT. That is encouraging. It has been a pretty long session for you, I imagine, so I will try to be brief.

You have probably answered this question before, but I want to get it straight in my mind: Do you believe that selective and wage-control powers in the hands of the administration will result in increased production?

Secretary SCHWELLENBACH. Not directly; no.

Mr. BUFFETT. I see. You do not think there will be any discernible change in the production situation as a result of those powers?

Secretary SCHWELLENBACH. They are not intended in that direction at all. They are intended for an entirely different purpose.

Mr. BUFFETT. Then your notion as to their value rests upon your belief that the Government, in its wisdom, can decide with greater fairness and greater justice who should get the available supply; is that right?

Secretary SCHWELLENBACH. You are talking about allocations now?

Mr. BUFFETT. That is what it amounts to. If there is no increase in production, then the value——

Secretary SCHWELLENBACH. I am not saying there will not be an increase in production. But you point to point 10 and ask me if that is going to result in an increase in production. We do not think that it is intended along that line at all. Then you jump over and say that allocation is affected, and since there is going to be no increase in production the Government has to allocate the commodities.

Mr. BUFFETT. Maybe I do not make myself clear.

Secretary SCHWELLENBACH. I think the last part of your question alone is perfectly all right, but I do not like to have you tie it up with point 10 because I do not think it has anything to do with it.

Mr. BUFFETT. My own notion is that prices ordinarily operate to determine allocation in most cases. In other words, if I come to you and want to buy some timber and offer you $500, and Joe Doaks comes along and offers you $600, the allocation is made because of the price differential.

When we enter into wage and price controls, we interfere with one of the normal factors of allocation.

Secretary SCHWELLENBACH. Would you buy the timber from me or would I buy it from you?

Mr. BUFFETT. I am bidding for your timber. I am offering you $500.

Secretary SCHWELLENBACH. You have a very legitimate use, let us say. You want that timber to build something.

Mr. BUFFETT. Yes; and then Smith comes along and offers you $600.

Secretary SCHWELLENBACH. Because Smith knows that somebody over in the neighboring State will pay him $1,000 for it.

Mr. BUFFETT. Yes. Normally, that is the free action of competitive forces, is it not?

Secretary SCHWELLENBACH. Yes—when you have something that is not in short supply.

Mr. BUFFETT. But under present conditions the demand is more than the supply, so that free competition is not operating; is that correct?

Secretary SCHWELLENBACH. No; I do not believe we have free competition in the sense that we ordinarily think about it, or in the sense that our friend Adam Smith thought about it. That is purely for the purpose of making an extra profit, or for a price that is beyond what anybody has ever thought about. Yet he has somebody over there willing to pay that price and he comes to me and offers $600, and you, who want to build something with that lumber, only want to pay me $500 because that is all that it is worth. I do not think that is free competition.

Mr. BUFFETT. Well, the free competition is eliminated by the fact that I cannot go to somebody else and buy the lumber for $500, is it not? That is, there is more demand than there is supply, and you think that by fixing the prices the Government then can allocate the supply and relieve the present distressing situation, which we all recognize is very bad?

Secretary SCHWELLENBACH. It is the belief of those primarily engaged in this sort of activity that allocation alone will take care of that sort of problem.

Mr. BUFFETT. Here is the problem which raises itself in my mind: Let us change over to steel. That is one item which is always short. You are a steel manufacturer and I come to you and want to buy steel. You say, "No;" your supply is all allocated to your regular customers. Then, if we give these powers to the Government, the Government comes to you, the manufacturer, and says, "You must deliver steel to Buffett because we regard his use of steel as more essential than that of customer A or B."

That is what the allocation power amounts to, is it not?

Secretary SCHWELLENBACH. That is the ultimate effect; yes.

The purpose of allocation is entirely different, however. The objective which the Secretary of Commerce has in mind, as I understand it, is different. The charge has been made—and I do not know whether it is correct or not because it is not in my line—but the charge has been made that there is a great gray market in steel, and that these companies, while they may think they are selling to their regular customers, are not actually selling to their regular customers at all. They are selling to somebody who will take that steel to a place where he can get four or five times what he paid for it and thus destroy the competitive place that steel occupies in the regular market.

Mr. BUFFETT. Well, you have to come to this conclusion, do you not, in the final analysis: You have to accept the conclusion that Government officials can, in the final analysis, allocate steel with more justice and more integrity than the people who make the steel; is that not right? Is that not the ultimate conclusion?

Secretary SCHWELLENBACH. Well, if it is true that the steel-fabricating concerns are not meeting bottlenecks because they cannot get steel, while somebody who is not in a legitimate business can get it, then that is correct.

But let me go back to my old illustration. I would much rather have an electrical traffic light on the corner that went on and off at certain times—and I know that when it goes red it is going to stay red for a certain length of time and then it is going to be green for a certain length of time—than I would have a policeman stand there using his judgment as to the number of cars he wants piled up before he is going to let me across.

But I do not think you can use mechanical traffic lights on this particular problem. You always have to vest discretion in somebody, unless it can be done just through the use of traffic lights which would stop anybody from operating in that way. That would be fine if we could have an economy in that shape and if we had full employment, proper living standards, and a supply which was exactly what we wanted. But we just do not have that situation, and the whole world does not have it.

Mr. BUFFET. Of course, the problem is that that policeman—if I can borrow your illustration for a moment—believes that the traffic coming from one direction might be a group of city officials who appointed him and that the traffic coming from the other direction might be a group of taxpayers and he might not worry about them.

Secretary SCHWELLENBACH. Well, if he comes from a city that is well organized, he worries about all of them. The taxpayers take care of him ultimately.

Mr. BUFFET. He is liable to be influenced by the people who control his position.

Let me ask you this: I am very much interested in knowing whether you know of any field in which acute price increases have taken place—that is, in essential commodities—though unaffected by export demand. I know of one, offhand. Cocoa has gone way up in price, still not being affected by export demand. But I am interested in knowing if there are fields of domestic essential commodities where there has been this price spiral over the last 12 months where there has not simultaneously been a substantial export demand, directly or indirectly. I thought you might have some information of that kind handy.

Secretary SCHWELLENBACH. Meat, dairy products, and hides, and shoes, I am told.

Mr. BUFFET. Of course, the price of meat is directly related to the price of grain, so that I do not think that would be a fair sample. Milk, similarly, has its price determined by the price of feed and feed grains, and grain and feed all tie in together. Hides certainly would look to be, offhand, like a sample; but there are not very many.

Secretary SCHWELLENBACH. Quicksilver also, I am told.

Mr. BUFFET. Generally speaking, I think you will probably agree with me that the big spiral has taken place almost exclusively in the areas of commodities that are directly affected by export demand, but I do not ask you to say so.

Secretary SCHWELLENBACH. Well, it is perfectly all right to ask me to say so. I have not attempted to deny it, but I do not think that it occupies the important part in the picture that some people believe.

Lumber, wood pulp, and paper products are other examples. Also lead, burlap, coffee, sugar, cement.

Mr. BUFFET. Lumber is only exported in small quantities.

Secretary SCHWELLENBACH. There is a net import of lumber.

Mr. BUFFET. But we always did that—even before the war—so the situation is not changed in that respect.

Secretary SCHWELLENBACH. We use to export Jap logs, chiefly, as far as the west coast was concerned. That is the type of logs the Japanese used. We did not use them so we used to send them to Japan. We are not doing that now.

Mr. BUFFETT. One of the things about this situation which disturbs me, Mr. Secretary, is this: In our endeavor to uphold certain governments in Europe which are practicing socialism, we put such a strain on our free-enterprise system that it is being discredited in the process. That could happen, could it not?

Secretary SCHWELLENBACH. Yes; anything could happen. We have got to take a calculated risk in this situation. What is going to happen if we do not do something about it? It is tough.

Mr. BUFFETT. Very tough.

That is all, Mr. Chairman. Thank you.

The CHAIRMAN. Do you have any further statement to make, Mr. Secretary?

Secretary SCHWELLENBACH. There were some figures that I promised to send up here this afternoon and a few other things. Outside of that, I have nothing further.

I will try as diligently as I can to get you the standards covering that portion of the program with which I have anything to do.

The CHAIRMAN. We are very grateful for your presence here, Mr. Secretary. You have been very helpful. I assume that later on, after we have had a chance to study the question further, and if we wish you to come back, you will be available.

Secretary SCHWELLENBACH. Yes.

(The following information was received from Secretary Schwellenbach on December 11, 1947:)

DEPARTMENT OF LABOR,
OFFICE OF THE SECRETARY,
Washington, December 11, 1947.

Hon. JESSE P. WOLCOTT,
Chairman, Committee on Banking and Currency, House of Representatives, Washington, D. C.

DEAR CONGRESSMAN WOLCOTT: When I appeared before your committee on December 2 and 3 in connection with the President's anti-inflation message, you requested me to submit suggested standards which would define and limit the area in which selective price controls could be applied under legislation enacted by the Congress. I indicated to you that I would submit my suggested language by today.

In accordance with this understanding, I am transmitting a draft of price control standards. The draft contains my suggested language for determining when and to what commodities price controls may be applied, and suggested standards for establishing maximum prices of nonagricultural commodities.

I expect to have ready for transmittal to you by tomorrow my recommendations concerning wage controls which may be necessary to maintain price ceilings.

The draft I am enclosing represents my personal recommendations in this matter.

Your very truly,

L. B. SCHWELLENBACH,
Secretary of Labor.

STATUTORY STANDARDS

SECTION —. (a) The application of this Act shall be limited to the following commodities:

(1) Commodities—

a. which basically affect the cost of living; and

b. which are essential items, or

(2) Commodities—

which are basic to the costs of agricultural and industrial production, or

(3) Commodities—

which are essential to the effectuation of the foreign policy of the United States.

SECTION —. (a) A maximum price may be placed on a commodity only when—

(1) The commodity is found to be in short supply. In determining when any commodity shall be regarded as in short supply within the meaning of this section, consideration shall be given to the following factors:

a. the supply of the commodity is limited by the productive capacity of the industry producing it, or the availability of essential raw or other component materials or (in the case of any agricultural commodity) by stocks on hand or in prospect during the crop-year in the United States or in other producing nations to which the United States exports or from which it imports such commodity in substantial quantities;

b. shortages or unavailability of commodities at points of use or consumption;

c. the withholding from the market by the producers of the commodity they produce;

d. accumulation of unfilled orders and stocks in hands of producers, distributors, or consumers;

e. sales outside normal channels of distribution at premium prices or at prices above listed prices;

f. price increases since June 1947 (or such other month in the calendar year 1947 which is found to be representative with respect to the purposes of this Act) substantially in excess of increases in cost of production or substantially greater than the average price increases for the general class of commodities with which the product in short supply is comparable.

(2) The price of such commodity has risen unreasonably above the price prevailing in June 1947 (or such other month in the calendar year 1947 which is found to be representative with respect to the purposes of this Act).

(1) Any maximum price established under this Act for a nonagricultural commodity which has been determined to be in short supply in accordance with the preceding section shall be no lower than the highest price prevailing between June 11 and June 18, 1947.

(2) If, in the case of any commodity, there are no prevailing prices during the period specified in paragraph (1), or if the prevailing prices during such period are not generally representative because of abnormal or seasonal market conditions, the nearest comparable one-week period in which the prices for such commodities were generally representative may be used for purposes of establishing maximum prices for such commodity under paragraph (1) above.

(3) Notwithstanding the provisions of paragraphs (1) and (2) above, a maximum price lower than the highest price prevailing between June 11 and June 18, 1947 may be established if such a price is required to—

a. make an allowance, in whole or in part, for decreases in costs of production, transportation, or distribution; or

b. take account of declines in market prices resulting from market activity but not specifically from any action taken under this section.

(b) In establishing a maximum price for any commodity higher than the price prevailing during the week of June 11–18, 1947 (or such other dates as may be used pursuant to paragraph (a) (2) above), due consideration shall be given to the equities of producers, distributors, and consumers.

The CHAIRMAN. This afternoon, at 2 o'clock, Secretary of Agriculture Anderson will be back to continue the discussion.

The committee will stand in recess until 2 o'clock this afternoon.

(Whereupon, at 1 p. m., the committee recessed until 2 o'clock on the same day.)

AFTERNOON SESSION

Present: Mr. Ralph A. Gamble, presiding; also present Messrs. Smith, Kunkel, Talle, Kilburn, Buffett, Cole, Hull, Banta, Foote, Spence, Brown, Monroney, Folger, Hays, Riley, and Buchanan.

Mr. GAMBLE. The hearing will come to order.

Mr. Secretary, we are glad to have you back, and I believe that when you last testified Dr. Smith had not concluded his questioning.

Secretary ANDERSON. That is right, Mr. Chairman.

Mr. GAMBLE. Doctor, do you wish to proceed?

Mr. SMITH. Thank you, Mr. Chairman.

STATEMENT OF CLINTON P. ANDERSON, SECRETARY OF AGRICULTURE

Mr. SMITH. Mr. Secretary, when you were testifying the other day, you said that the powers you were asking for here did not involve a seizure by the Government of farm produce; is that correct?

Secretary ANDERSON. That is correct.

Mr. SMITH. Are you in agreement with the testimony given by Carl C. Farrington, Assistant Administrator of the Production and Marketing Administration before the Joint Committee on the Economic Report?

Secretary ANDERSON. Mr. Farrington was asked many questions after he finished his testimony. I certainly would not want to be bound by everything he said, but I think that in the main he did an excellent job and I would be very surprised if there was anything in his testimony with which I did not agree. I certainly agreed with his formal statement.

Mr. SMITH. That is the point I wish to inquire about.

Secretary ANDERSON. Yes, sir.

Mr. SMITH. His formal statement.

Secretary ANDERSON. In it there is a suggestion that the Government, if it wished, could acquire all the wheat crop, but I do not believe there is anything in that that refers to seizure of it.

Mr. SMITH. I did not quite get that statement.

Secretary ANDERSON. I believe that in his statement there is as suggestion that the Government could purchase all of the wheat which moved into the commercial markets, but there is nothing in that which, in my opinion, contemplates seizure of the crop. There is a difference between talking what the farmer voluntarily offers into the market and what he has on his own personal farm.

But proceed, Doctor.

Mr. SMITH. What does this mean?

restricting and prohibiting the use of the basis of essentiality of the particular use.

Secretary ANDERSON. Well, it can refer to many things. I would have to see the full paragraph in his statement to find out what he was referring to at that time.

Mr. SMITH. Is that an allocation power which would be necessary to prepare adequately to deal with the shortage of food? These points are included under that heading.

Secretary ANDERSON. You will recall the situation where we had very tight grain supplies in the spring of 1946, when we put out regula-

tions that did restrict the use of grain according to its essentiality. We did, for example, say that brewers could use no wheat whatever. We said that distillers could use no wheat whatever. We restricted them to the types of corn which they could use. We restricted the amount of corn or wheat that could be used in certain types of poultry foods, and those are all restrictions according to the essentiality of the use to which grain would be put.

Mr. SMITH. Would you have the power, assuming that this request were granted, to come onto my farm and say to me, "Dr. Smith, you have several hundred bushels of wheat in your bins, and we have decided that we need wheat pretty badly; therefore, you cannot use this wheat to feed to your hogs," would you have that power under this proposed legislation?

Secretary ANDERSON. I do not know what legislation you are referring to——

Mr. SMITH. If a bill were passed complying with this request of recommendation.

Secretary ANDERSON. I would say that we would not have that power. I never know what inherent powers there are in legislation because I am not a lawyer, but I know that the Department would not purposely request that power, and probably would not get it from the Congress if it did. I mean, I doubt very much if the Congress would write something into the legislation which would give us that sort of power by indirection and we certainly would not ask for it directly.

Mr. GAMBLE. You probably would not need it, anyway, would you, Mr. Secretary?

Secretary ANDERSON. No; we would not get it, but I am qualifying my answer, Mr. Chairman, because I do not know what would result from the introduction of a bill into Congress. Sometimes a provision is written with the very best of faith on everyone's part, and it is subsequently construed as having a narrower or broader meaning than was contemplated, but I am sure that the Department of Agriculture does not contemplate requesting power that would permit me to go to a farmer's barn and say he could not feed several hundred bushels of wheat that he might have to his hogs. If any Member of Congress would want that, certainly the Secretary of Agriculture would not want it.

Mr. GAMBLE. When I say you would not need it, I mean that your contemplated plan does not contemplate that situation.

Secretary ANDERSON. No.

Mr. SMITH. Well, I am not so sure about that. Let us go back. How can you make a statement like that when in 1946, Mr. Secretary, your Department——

Secretary ANDERSON. It did not seize any grain. Do not tell me it did, because it did not.

Mr. SMITH. No, but your Department certainly was a party to the proposition to consider seizing the livestock on the farms and ranges, was it not?

Secretary ANDERSON. That question has been asked several times during the year 1946. I have answered it the same way every time. I do not know where any person connected with the Department of Agriculture had thoughts about the seizure of livestock. I can only answer for myself, and I never had any thoughts about the seizure of livestock. There was a magazine article published saying they thought

I was going to ask for it, and on that basis I endured a rather violent amount of criticism, but the article was incorrect. I might not have been too specific in my answers when the reporter was talking to me, but nonetheless the article was incorrect. Never at any time in public or private, in any paper written or any pronouncement made on the radio, did I ever advocate the seizure of livestock, ever, at any time or any place, and no one can produce one trace of evidence to show that I did.

Mr. SMITH. I am not accusing you of that. I merely state that the Administration made the statement publicly that they had considered seriously seizing the cattle on the farms and ranges.

Secretary ANDERSON. I think I can help you some with that. There were proposals made, steadily, to the Administration that the Administration should seize livestock from the farmers and should then allot that livestock directly to packing plants. The President, as I recall it now, in a message which he released, probably in October—though it might have been in September—of 1946, admitted that we had tried to explore every possibility that had been suggested. Those proposals were of all kinds and descriptions. They were not proposals based on suggestions from the Department. Some of them might have been, but all types of suggestions that were made were considered carefullly to see if there was any alternative to the lifting of controls; and one of the suggestions that had been steadily made by a very earnest group of people was that livestock should be seized, and that proposal was rejected by the President in that document. It was referred to as a suggestion that had been canvassed, but it was not the President's suggestion.

Mr. SMITH. But the President said "we."

Secretary ANDERSON. He should have said "we," because, in addition to the President, the Office of Price Administration, the Price Decontrol Board, the Secretary of Agriculture, and a great many people had gone over a great many of these suggestions, and we had decided that the suggestion to seize livestock was undesirable and unworkable and not a good thing in any case, and it had been rejected. It was not a proposal of any Government agency.

Mr. SMITH. The point I am getting at is this, Mr. Secretary: With that sort of psychology prevailing in the administration——

Secretary ANDERSON. The psychology that would reject a thing like that was the one that was prevailing.

Mr. SMITH. Pardon?

Secretary ANDERSON. The psychology which rejected it was the one that was prevailing.

Mr. SMITH. The psychology that would even consider such a thing; that is what I mean, Mr. Secretary, the psychology that would even consider such a thing. Now, then, in view of that situation, if this suggestion were written into legislation, and if you had the power we are talking about here, what would prevent that same psychology developing again, and simply giving instructions to the Government agencies or agency carrying out the program to come on my farm and saying: "You cannot feed this wheat to hogs; you have got to put it on the market and sell it"? What would prevent such a thing occurring?

Secretary ANDERSON. I think you are starting with a very violent assumption that the Congress is going to pass such a law, or that the

President is going to sign it. Certainly you are starting with a strong assumption if you would suggest that the Department of Agriculture would propose it. I think that all those things would work against the possibility that such a situation could ever arise. I cannot believe that the Congress will pass a law that would give power to seize farmers' property.

Mr. SMITH. Let us take this next statement and see just how your last statement works out. Under "D," on page 4——

Secretary ANDERSON. Of what?

Mr. SMITH. Of the testimony of Mr. Farrington—we read this——

Secretary ANDERSON. May I see if I have a copy of Mr. Farrington's testimony first?

Mr. SMITH. Yes. It is on page 6.

Secretary ANDERSON. Yes; I have a copy; thank you. Page 6?

Mr. SMITH. Yes. "D."

Secretary ANDERSON. I have it.

Mr. SMITH. "Require producers"—that is, farmers—"to set aside specific amounts of their entire production for acquisition by Government agencies." What does that mean?

Secretary ANDERSON. What does that mean?

Mr. SMITH. Yes.

Secretary ANDERSON. Well, you skipped some words as you read it. It is essential to read it all: "Requiring producers and distributors——"

Mr. SMITH. All right, "producers and——"

Secretary ANDERSON. Just a minute, if I may. Producers does not necessarily mean a farm producer. It could, in this case, as it probably does, mean a packing plant, for example. During the period of very close supplies, during the war, we required producers, packing plants, to set aside specific amounts or the entire production for acquisition by the Government.

Mr. SMITH. It could also mean farmers, could it not?

Secretary ANDERSON. I imagine that you could say that, the way it stands here, it could include farmers, if you passed a bill that would include them; yes.

Mr. SMITH. If you passed a bill to what?

Secretary ANDERSON. If you passed a bill which included them.

Mr. SMITH. Included what?

Secretary ANDERSON. If you passed a bill which said that farmers should be compelled to set aside specific amounts.

Mr. SMITH. No, Mr. Secretary; let us hold to the question.

Secretary ANDERSON. Well, this does not say "crops."

Mr. SMITH. If we said "producers"—that is the question I am asking you—could that be made to include farmers?

Secretary ANDERSON. I cannot answer to the interpretation of a law. I can only give you my interpretation of it. My interpretation of it is that it would not apply to farmers, because when we want to say "farmers" and "farm crops," we generally say so. "Producers" has had a somewhat different meaning. But I would not attempt to say that a court might not construe "producers" here as including farmers. The purpose of the proposal, however, is not to make provision to take over the entire production of any farm crop, except the amount that the farmer himself proposes to sell. I do not want to restrict the possibility that we could do, as we have done in the

past, when we took over the entire peanut crop, and I think there may have been other cases where we took over the entire wool crop, but I assure you that was quite all right with the farmers who were selling the wool.

Mr. SMITH. That might be quite all right for the farmers who were selling the wool. That is not at all the point.

Secretary ANDERSON. Well, that is quite a bit different from seizure. That is what I am trying to get at.

Mr. SMITH. Well, it is seizure, in any event, whether I am satisfied or not satisfied. That is not the question. You come and arbitrarily take my wheat or some other grain or livestock; and whether I am satisfied with that sort of thing or not, it is still seizure.

Secretary ANDERSON. Well, I maintain steadily that what you should do is find out what happened. We did not go to any wool producer and arbitrarily take away from him his wool. And that is not seizure.

Mr. SMITH. I will not press this point any further; but to me you are asking for the power—and that is exactly what you would get if you get anything like what the language of this proposal says—to seize the farmers' crops just as they are doing in England, just as they are doing in Italy, and just as they are doing in Russia.

That is all.

Mr. GAMBLE. Mr. Monroney.

Mr. MONRONEY. I have no questions at this time.

Mr. GAMBLE. Mr. Kunkel.

Mr. KUNKEL. I have no questions at this time.

Mr. GAMBLE. Dr. Talle.

Mr. TALLE. Mr. Secretary, will you turn to the President's 10 points, please?

Secretary ANDERSON. Yes, sir.

Mr. TALLE. Points 5, 6, and 7.

Secretary ANDERSON. Yes.

Mr. TALLE. In the event that you were granted what is asked for in points 5, 6, and 7, could you ask for anything more?

Secretary ANDERSON. Yes. The President's message asks for export controls in addition to that; it asks for price ceilings, and authority to ration. It asks for regulation of speculative trading and allotment of transportation facilities. In agricultural products, you cannot separate a portion of the President's message from the over-all message in which he asks for the extension of price controls even though they are not specifically covered in points 5, 6, and 7.

Mr. TALLE. The 10 points constitute a sort of a decalogue of Mosaic law. If you transgress on one, you transgress on all of them?

Secretary ANDERSON. Well, I do think that you would be the first to recognize that the members of the administration support an administration policy and program. But there are many points that are not of concern to the Department of Agriculture, and we would not press for those. If you passed 5, 6, and 7, we would not say anything about rent control, because it is a field that is handled entirely by the Housing Administration, and a case must be made for it. As far as farmers are concerned, they are not primarily concerned with rent control; therefore, I left that one out, and I left out the Treasury proposals dealing with consumer credits and the creation of an inflationary bank credit. But nearly all the other things are items which

touch the Department of Agriculture and therefore are items in which we have an interest.

Mr. TALLE. Would 5, 6, and 7 rate pretty high on your schedule as far as your Department is concerned?

Secretary ANDERSON. Very high.

Mr. TALLE. In the event you got the authority requested in point 5, how would the Department enforce limits on weights of cattle?

Secretary ANDERSON. Well, I testified before the Senate Appropriations Committee, or perhaps it was before the Joint Committee on the Economic Report, a few days ago, and pointed out that limitations on the weights of cattle were very poor limitations but were very effective as to weights of hogs; that you, therefore, had to separate the types of livestock with which you were dealing. A steer that is three and a half to four years old might not be fat at all and might weigh 1,100 pounds or a thousand pounds, and a little two-year-old might be fattened very excessively and weigh almost that much or around that much. So it is not the weight of the cow that counts; it is the grade and type of finish that you can put onto that cow.

But in the case of hogs, a weight limitation has been, and would be, quite effective. During the war, when grains got scarce, the Government dropped the support price on heavy hogs, and under its authority to do that it thereby made the fattening of hogs to excessive weights unprofitable to the farmer and therefore discouraged the fattening of hogs to excessive weights. Now, that is a useful device in conserving grain in the case of feeding hogs. It is not a good device in the case of cattle.

I have said so very frankly before, and I will say so again, that in my opinion that is a very poor way to try to handle cattle.

Mr. TALLE. I should now like to turn to the matter of wheat. I had an opportunity to ask one question when you were before the Joint Committee on the Economic Report. I think, for our record here, I would like to have your figures. The total wheat crop is put at 1,407,000,000 bushels, is it not?

Secretary ANDERSON. 1,407,000,000 bushels; yes.

Mr. TALLE. And it is estimated that 510,000,000 bushels will be needed for food in our own country?

Secretary ANDERSON. That is the figure that we are now carrying. It is entirely possible that that might drop to 500,000,000 bushels, but I think it is pretty hard to estimate eating habits absolutely accurately. I would say somewhere between 500,000,000 and 510,000,000 bushels is a reasonable figure.

Mr. TALLE. And the quantity needed for seed for next year's planting?

Secretary ANDERSON. 85,000,000 bushels.

Mr. TALLE. And for feed, 250,000,000 bushels?

Secretary ANDERSON. 250,000,000 bushels, and it is possible that that might drop again. It has already dropped from—well, in August or September—late August, I believe, would be the correct date—I was having various agencies of the Department estimate the amount of wheat that would be used for feed, and the estimates ranged from 275,000,000 bushels up to 400,000,000 bushels. Now, it depended a whole lot upon the price at which that wheat would be sold, and, therefore, we used a 325,000,000 figure in one report and a 350,000,000-

bushel figure in another, I guess. But somewhere in there we felt might be a possible feeding of wheat.

When the price of wheat went to $3 it discouraged feeding to some degree, and we then got reports indicating that the feeding of wheat was moving much more slowly than we had anticipated, and the Bureau of Agricultural Economics reduced its estimate to 250,000,000 bushels, and I think that is a fairly good figure to use at the present time, although, as I indicated a day or two ago, it would not be impossible for us to see that figure drop to 200,000,000 bushels. We might get a feeding of wheat that ran as low as that. It will depend a whole lot upon the prices that obtain for poultry and, to some extent, for milk, as to how much grain will be fed at the present prices.

Mr. TALLE. The figure looks low to me, but I realize that circumstances might alter that situation.

Secretary ANDERSON. No; I think the figure is very liberal now. It was low at one time, and circumstances could raise it and make it low, I will admit.

Mr. TALLE. That makes a total of 845,000,000 bushels.

Secretary ANDERSON. Yes; it does.

Mr. TALLE. 845,000,000 bushels?

Secretary ANDERSON. Yes; that is correct.

Mr. TALLE. Deducting that amount from the total crop leaves a remainder of 562,000,000 bushels.

Secretary ANDERSON. No; because you have to take the carry-over—well, do you want to leave the carry-over out of it?

Mr. TALLE. Yes. Then, if you add the carry-over of 84,000,000 bushels, which is a liberal—it is really 83 and a fraction—if you make it 84,000,000 you get a total remainder of 646,000,000 bushels.

Secretary ANDERSON. Yes.

Mr. TALLE. How many million bushels is it proposed that we send abroad?

Secretary ANDERSON. Between 400,000,000 and 500,000,000 bushels. I think it is fairly safe to assume that the minimum quantity would be in excess of 400,000,000 bushels. The State Department has been using the figure recently of 450,000,000 bushels. It is not impossible that it might be 500,000,000 bushels. It would depend, I think, to some degree, on the condition of the winter-wheat crop and the condition next spring, but somewhere between the 400,000,000 and 500,000,000 bushels depending upon crop conditions here, the development of crops in other parts of the world, the possibility of additional grains moving in world commerce, and a great many other factors that we ought to recognize as being in the picture.

I do not think it is quite safe at this time to fix an absolute figure. I would rather have it where it could be changed if necessary by the development of other conditions. For instance, if grain began to move in world trade from other sources, that might simplify our problems and not make necessary the strains that we would put on our own economy by sending 500,000,000 bushels of wheat abroad.

For example, the Australians have increased their amount of availability of wheat 500,000 tons in the last 10 days or 2 weeks. There are stories circulating quite freely to the effect that many trades are now under contemplation by the Russian Government which has at least 2,000,000 tons of wheat that might be available for export, and might possess still more wheat than that. If that supply of wheat,

like the Australian wheat, suddenly became available, naturally it would change our own position considerably. So I say that the goal, depending on weather here at home and weather abroad, and conditions in other countries, has to remain somewhat flexible as we move along.

Mr. TALLE. I suppose the hope of getting anything from Russia is just about as uncertain as the weather.

Secretary ANDERSON. No; I think not.

Mr. TALLE. I am glad to hear you say that.

Now, if we send abroad 500,000,000 bushels, we will be sending abroad as much as the entire consumption for a year by the American people for purposes of bread and cereals?

Secretary ANDERSON. Yes.

Mr. TALLE. That would leave a carry-over of 146,000,000 bushels?

Secretary ANDERSON. Yes.

Mr. TALLE. The carry-over of last year was the lowest in 20 years, with the exception of the year 1937, was it not?

Secretary ANDERSON. Yes; that is right.

Mr. TALLE. So, in actuality, we did not gamble a great deal on the weather, did we, this year?

Secretary ANDERSON. No; we did not. The problem of carry-over is as well a question of the organization of facilities to move grain rapidly from the Southwest as the amount that might be in the grain warehouses of the country. You can get by very well with a carry-over of a 100,000,000 bushels, if you are in position to move rapidly the early crop that comes in from Texas, Oklahoma, and Kansas, and the reason why we could do with a carry-over of 84,000,000 bushels this year, as against an average carry-over of 117,000,000 bushels some years earlier, and an average carry-over from 1932 to 1941 of 246,000,000, an average, as a matter of fact, since 1919, over nearly 30 years, of 224,000,000 bushels—the reason that you can work with 84,000,000 bushels as against 224,000,000 bushels is that you have facilities by which the railroads pick up your crops early and promptly get them into mills which otherwise would be running out of supplies.

I do not wish to imply that it is not a fine thing to have a large carry-over when you face the possibility of a bad crop. We were very fortunate this year, when we got a short corn crop, that we had a large carry-over of corn last year, and the most desirable thing would be a large carry-over of wheat until June 30. I recognize that. But it does not mean that we cannot get along, as far as taking care of the millers of this country, and the users of wheat. It does not mean that we cannot get along with a much smaller figure than we normally carry over. It means that we have to put railroad trains into the Southwest and start moving the grain very rapidly into the mills, which otherwise are badly squeezed.

Mr. TALLE. The matter of freight cars has been an issue for a number of years. You would have to commandeer those cars for this purpose, then, would you not?

Secretary ANDERSON. I am not trying to quibble with you, but I do not like the term "commandeer."

Mr. TALLE. I will agree to some better word.

Secretary ANDERSON. The answer actually is that while the Office of Defense Transportation has had the authority virtually to commandeer these cars, they have had as well the very close cooperation

of the Association of American Railroads and all they have to do is to indicate to the railroads that they wanted a certain number of cars in there, and the railroads have themselves made their own allocations. They have done it without the Office of Defense Transportation ever having to issue a real order covering the movement of these cars.

You are very correct in saying that the question of boxcars has been a serious question for many years, and I think is likely to remain a question for some time yet. It has not been solved, and it is a serious situation. The cars are wearing out. They have been given very rough treatment during the emergencies of the war, they had to be called upon for extraordinary duties, and, therefore, the use of those cars without repair was far beyond what we would like to have had and what the railroads themselves would have desired.

They used them up to a point where they are not good for hauling grain—a great many of them, at least—and we have had to do all sorts of experimenting to try to make them usable. The railroads simply have to have time to catch up and have not had that time as yet. That is a very serious problem in the question of the movement of grain.

Mr. Talle. The point I am leading up to is that as the only Nation in the world today—the only great Nation, at least—which can offer some hope to the sphere on which we live, we should by no means put ourselves in a position such that in the event we had a drought like that of 1934 or 1936, we might be put in a very weak position as far as our own people are concerned.

Secretary Anderson. I agree that it would be undesirable for us to get in that situation, but I do believe that there is sufficient leeway in our programs so that we could correct that situation if conditions next spring seem to indicate that it is desirable.

Mr. Talle. I remember last October the crop reporters from your own Department and the State of Kansas and the Governor of Kansas were examining the subsoil moisture in Kansas because they were very much disturbed about the bad prospects of winter wheat.

Secretary Anderson. Yes, and at that time they issued a statement saying that the prospects then indicated the possibility that the crop would not exceed 90,000,000 bushels, where it had been nearly 300,000,000 bushels this year. Governor Carlson used those figures—he is as well known to you as he is to me—and I am sure they were good figures. I attested to them when I was out in Kansas. The conditions at that time would justify an estimate that the crop might drop as low as 90,000,000 bushels. Since that time we have had good rains, not only in Kansas but in Texas and Oklahoma, we have had some snow in areas of Colorado where we needed to have it, we have had fairly satisfactory moisture conditions, and it might be possible to salvage a great deal of the wheat crop.

I recognize that that statement has to be coupled with the possibility that the same drought might occur next spring. But we are in much better shape now than we were. The plantings in Oklahoma are up to what they had expected them to be. They are as high as they were last year.

The Kansas plantings have come along very well. I perhaps should not go into detail as to each State because we will have an official crop report out on December 18, and that report will carry a first prelim-

inary report of the winter wheat conditions and acreage. That report will be far more accurate than the information which we now have, because that information is spotty and is not collected as well as the information which will be included in the December 18 report.

But I believe that for actual estimates of the wheat crop we had better wait for that crop report, but I can say to you that conditions in Kansas, Oklahoma, and Texas are greatly improved, and that we have a possibility—still only a possibility—of obtaining very satisfactory crops.

In any event, I think those crops will be down from last year's record. We had abnormally good weather last year. We not only had good weather, but we had a great deal of good weather. We had ideal, perfect weather, and therefore had a yield that ran 1,400,000,000 bushels. I think it would be only safe to say that, given just good weather—not abnormally good weather, but really favorable weather—that might come down to 200,000,000 bushels.

Mr. TALLE. Our corn crop in Iowa was down this year, and it is amazing that we got as much as we did considering the rain, the cold weather, the floods, and the burning heat. If we had not gotten this super de luxe bumper crop, that short corn crop would have been a staggering blow.

Secretary ANDERSON. Yes; I agree.

Mr. TALLE. I think we should consider that we might get a cycle of dry years.

Secretary ANDERSON. I do, too.

Mr. TALLE. It is not unusual. It happened long ago. I remember that you some time ago raised the warning that some lands had been plowed under that should have remained in grass.

Secretary ANDERSON. Yes.

Mr. TALLE. With which I thoroughly agree. We might get another Dust Bowl.

Secretary ANDERSON. Yes; I agree. I do not question that at all.

Mr. TALLE. That was your warning, and I agreed with it. Now, we took that chance because of the war, but we took the chance. Now, it might come again, and it would be very serious. So we have been rather kind to the peoples of the world. We have taken a number of chances. I find, in Great Britain, that that nation started as early as 1944 to shift back to old practices. They plowed up a lot of land between 1939 and 1944 to increase their wheat crop twofold—perhaps a little more, but in 1944 they started to work back to more permanent pasturage. So that, even in spite of bad weather and an abnormally low yield per acre for Great Britain this year, they did pretty well—over 30 bushels to the acre, and had they left the acreage in wheat, at least, on the basis of that rather low yield per acre, they would have had something over 50,000,000 bushels of wheat more. So they are shifting back, while we are still taking a chance.

Secretary ANDERSON. Well, I think that they had farmed some lands which, from the standpoint of conservation, needed to be shifted back. I also recognize that they were trying to get some livestock production so that they could get a small amount of fats, which they had not had. They have not been able to depend upon us for the foods that they would like to have asked from us for their livestock production. It is only quite natural that they would try to shift back because it did look as if there was a possibility that the wheat situation on a

world-wide basis was going to be in much better circumstances this year. It did not work out that way because of the loss of some 6,000,000 tons of production in Europe because of drought.

Mr. TALLE. It is true, is it not, that in Great Britain, France and Italy, they have not depleted their herds, they have either maintained them or increased them, so they do feed them grain; do they not?

Secretary ANDERSON. Oh, no. The French herds are away down. The Italians, you can show an increase in hog population, for example, but there never was any hog population there. So that any increase that you can mention, almost, percentagewise, looks big, but actually it is a trifling increase.

The British herds are down, and it is going to take a long time to rebuild the livestock population of England. There are areas in Europe where there has been a revival of livestock production, but that is in areas like Denmark, where they were able to rebuild.

But the herds are down in France, very definitely.

Mr. TALLE. There must be some discrepancy in reports.

Secretary ANDERSON. I could be wrong, but that is my impression.

Mr. TALLE. I have the figures from the British Board of Trade for Great Britain. For instance, in 1939, for June 1939, the cropland was 8,813,000 acres.

Secretary ANDERSON. I am sorry, Dr. Talle, the Agricultural Attaché from France and the Agricultural Attaché for Italy are here and they are both able to give you official estimates on France and Italy, if you so desire. It would be fare better than my offhand statements to you.

Mr. TALLE. I think the committee would appreciate it if they would supply figures to you that you could put into the record.

Secretary ANDERSON. We will be glad to do so.

(The document above referred to is as follows:)

ACREAGE OF CROPS AND LIVESTOCK NUMBERS, UNITED KINGDOM

According to the official reports of the Ministry of Agriculture, the tillable acreage in the United Kingdom as of June each year is as follows: 1939, 8,813,000; 1944, 14,548,000; 1947, 12,876,000.

The 1947 figure is, of course, a preliminary estimate. It is our understanding that these figures include the land in crops, summer fallow, if any, and the land in rotation pasture. The number of livestock on farms in the United Kingdom, June of each year, is as follows:

Item	1939	1944	1947
	Thousands	*Thousands*	*Thousands*
Cattle	8,872	9,601	9,571
Sheep	26,887	20,107	16,873
Pigs	4,394	1,867	1,628
Poultry	74,357	55,127	60,930
Cows and heifers	2,841	2,927	2,899

Mr. TALLE. The cropland, as stated, for June 1939, in the United Kingdom, was 8,813,000 acres. That was in 1939. In the same month of 1944 it had jumped to 14,548,000 acres, an increase of almost 6,000,000 acres.

By June of 1947—this year—it is down to 12,906,000 acres. In other words, shifting from cropland to pasturage.

Secretary ANDERSON. I think that is an absolutely true statement, that there has been a reduction in the amount of cropland in Britain this year, but I think that some of the land that they were plowing, and which they had used steadily for wheat, was about due to be rotated back into grass.

Mr. TALLE. I do not blame them for doing it. They probably had good reason for doing it. It is just this point which I raise. These are unusual times and it might have been a pretty good idea to raise some more wheat.

Secretary ANDERSON. I agree with that thoroughly.

Mr. TALLE. In the event we send this large quantity abroad, do you think it should be sent as wheat or as flour?

Secretary ANDERSON. In the main, it ought to be sent as wheat. We send a good deal of it as flour. There are strong arguments to be made for both practices.

The argument, of course, for flour is that if you send it as flour you know it will be used as human food. That is the simplest argument for the flour.

The argument for the wheat is that if we send it abroad as wheat, we are using an extraction ratio in this country of 68 to 72 percent, and thereby we get the byproducts for livestock food, principally for chickens, whereas if you send it abroad as wheat, they will use it on an extraction ratio that may run up as high as 96 percent, and it goes much further if you send it abroad as wheat than if you send it abroad as flour.

So it is a pretty difficult question to determine at all times, but, in general, I have urged that this year much more of our grain be sent abroad as wheat than was last year. We shipped a great deal as flour last year, and it ran some of these countries short, because they could make greater utilization of wheat than they could by getting the equivalent in flour.

Mr. TALLE. Of course, we do lose the feed if we send wheat.

Secretary ANDERSON. Yes, sir.

Mr. TALLE. We save it if we send the flour.

Secretary ANDERSON. Yes; that is true. At the same time, that byproduct, shorts and midlings, which we may get here, and which we can feed to our animals, that is pretty valuable food over there.

Mr. TALLE. It is coarser bread?

Secretary ANDERSON. Yes, and if you could possibly ship it across as wheat, it serves a greater purpose over there.

Mr. MONRONEY. Will you yield?

Mr. TALLE. Yes.

Mr. MONRONEY. Is it not a fact, though, Mr. Secretary, that then, if we sent it abroad as flour, they must take cornmeal and other baser grains to mix with the flour that we have to make them more like bread, to extend the flour further. I mean they do not use our pure flour as such over there, but add coarse grains to it, which again pulls away from us, barley, rye, or corn, which would be more valuable for stock feed perhaps than bran and some of the shorts?

Secretary ANDERSON. Yes, I think in the balancing out of it all, that the odds are in favor of sending across a large proportion of wheat as wheat. I think that if we were to send about a third in flour and two-thirds in wheat, we would be able to do the job about the way I think it ought to be done.

Mr. TALLE. If I may return for a moment to the figures with which we dealt at the outset——

Secretary ANDERSON. We will file with the clerk, Mr. Talle, for inclusion in the record at this point, a statement showing the livestock population of Italy and France.

(The document referred to is as follows:)

Italy—Livestock numbers in 1947 compared with previous years [1]

Kind of livestock	Thousands of head		
	July 1947 [2]	July 1946 [2]	June 1941
Cattle	7,245	6,900	8,488
Milk cows	2,150	2,000	2,708
Others	5,095	4,900	5,780
Swine	3,100	3,000	3,645
Sheep	9,735	8,692	9,829
Goats			1,770
Equine	1,300	1,350	1,741

[1] Data compiled by U. S. Embassy, Rome, Italy, from official sources.
[2] Estimated, not census figures.

France—Livestock numbers in 1938 and 1946

Kind of livestock	1938 (Nov. 1)	1946 (Nov. 1)	Proportion 1946 is of 1938
	Number	*Number*	*Percent*
Horses, total	2,692,100	2,353,728	87
3 years and over	2,220,200	1,822,949	82
Under 3 years	471,900	530,779	112
Mules	108,200	96,143	89
Cattle, total	15,621,700	15,099,675	97
Bulls	280,200	279,155	100
Oxen	1,236,400	1,193,995	97
Cows	8,731,900	7,413,689	85
Calves:			
1 year and over	3,113,500	3,444,686	111
Under 1 year	2,259,700	2,768,150	123
Sheep, total	9,872,400	7,258,942	74
Rams	200,100	141,552	71
Ewes	6,181,100	4,778,981	77
Wethers	986,200	359,923	36
Lambs	2,505,000	1,978,486	79
Goats	1,415,900	1,146,394	81
Hogs, total	7,126,700	5,334,525	75
Boars	39,800	34,112	86
Sows	874,800	799,795	91
Other	2,581,100	1,821,251	71
Pigs under 6 months	3,631,000	2,679,367	74

Source: French Ministry of Agriculture.

Mr. GAMBLE. Would you identify the two attachés you spoke of by name, Mr. Secretary?

Secretary ANDERSON. Dr. Ben Thibedeau is the agricultural attaché in France, and Dr. Cotton is the agricultural attaché in Italy.

Mr. TALLE. Since those data will no doubt come into the record at this point, may I read the numbers of animals and poultry on the United Kingdom farms?

Cattle, June 1939, 8,872,000.
June 1944, 9,501,000.
June 1947, 8,571,000.
So there at least the cattle are up.

Secretary ANDERSON. Well, Britain was in the war in 1939. They were on their way, and they had had some changes then. My understanding is that their livestock population is not up. I will be glad to check that.

Mr. TALLE. Well, their sheep population is down, and their hog population is down, but cattle and poultry are up—poultry very much. It jumped from 74,357,000, for poultry, for June 1939 to June 1944, 55,127,000, and for June of 1947, 69,930,000—very close to 70,000,000. Poultry is up very much. Cattle a little bit. Sheep and pigs are down.

There was another point which I wanted to ask about in connection with the table of figures we used at the outset, in connection with the different uses of wheat. We mentioned feed, seed, food, and set-asides for shipments abroad. Are there no industrial uses that should be allotted something out of this total quantity?

Secretary ANDERSON. Well, there are very minor ones, but they are included in the 510,000,000 bushels.

Mr. TALLE. They are included?

Secretary ANDERSON. Yes. They represent the use of wheat in alcohol, and it is not being used very much in alcohol right now, and will not be, probably, during the year.

Mr. TALLE. Well, a cheap grade of wheat used for making the mold is used in making candies. I do not suppose that is a great consumer of wheat, but it is a use of wheat nevertheless.

Secretary ANDERSON. The usual industrial use of wheat other than for alcohol runs less than a million bushels. It is unimportant.

Mr. TALLE. I have taken quite a little time, Mr. Secretary. Thank you for your testimony. I want to leave some time for some of the other members. Thank you very much.

Mr. GAMBLE. Mr. Hays.

Mr. HAYS. I wanted to ask another question about the use of wheat for alcohol. What success are you having, Mr. Secretary, with the voluntary arrangements with the distilleries under the announcement made public sometime ago?

Secretary ANDERSON. The arrangements with the distilleries and the breweries were handled nearly entirely by the Citizens Food Committee. The breweries are closed and the distilleries are not using wheat. I mean the distilleries are closed and the breweries are not using wheat.

Mr. HAYS. What grains are affected by that program?

Secretary ANDERSON. They use malt and barley to a large degree, which is a somewhat specialized variety of barley, bringing a high price and making it not too desirable for food uses. It could be used for food, but it is too expensive. They use low grades of corn. They use grades of rice that are not suitable for table use. Those are principally the grains.

Mr. HAYS. I did not understand what you said about the breweries.

Secretary ANDERSON. The breweries are operating at a slightly reduced rate, not very heavily reduced, and they are not using wheat,

nor are they using the first three grades of corn, nor are they using table rice at all.

Mr. HAYS. What is being accomplished now is altogether under voluntary arrangements; is that right?

Secretary ANDERSON. Yes, sir.

Mr. HAYS. But the powers that are asked by the President would enable the Department to prevent any undue diversion of grain for intoxicants?

Secretary ANDERSON. Yes.

Mr. HAYS. I did not want to get into that field any more than was appropriate, and I realize——

Secretary ANDERSON. Well, it is perfectly appropriate.

Mr. HAYS. Well, it involves a rather delicate question for this reason: In Britain, and in America, to some extent, those who have a rather strong conviction on temperance matters conceivably could take advantage of a situation to disturb the Nation's economy and would emphasize, we might say, a social idea rather than an economic idea, and there is a problem of balancing the two. That was the thing that I had in mind. I have had some conversations with my people, who feel strongly about the high consumption of liquor in a time like this when grain ought to be used for food and not for liquor.

Secretary ANDERSON. Well, I think my conscience could get acute on that subject, too, if I thought it was extremely vital. But let me just say this:

In the first place, the breweries probably will use, on some reduced basis, 30 to 40 million bushels, maybe 50 million bushels of grains, all grains. The distilleries probably might use 40 million bushels of all types of grains that they want to use.

Now, back from their operations comes a byproduct very useful in feed. If that byproduct is not available, the livestock operator uses corn and he is not restricted as to grades, or he can use any of the other things that I have mentioned. He can use wheat, he can use anything he wishes to use. So that it is not a complete loss of 40,000,000 bushels of grain.

Furthermore, there are a great many people who feel that beer, for example, has certain nutritive qualities. I think that if we were in the position of making a defense for the brewing industry, we would have to admit that there are a large number of calories available in beer, and there are working people who depend upon beer as a drink, not just as a beverage, but as a source for calories, and on that basis we have not been too disturbed over the amount of grain actually used by the brewing industry, or by the distilling industry.

As a matter of fact, when you look at the total supplies of all grains, and realize that they run beyond 5,000,000,000 bushels, the use of a net of 20 or 30 million bushels is not too extensive, and it does involve you in all sorts of arguments by closing down an entire industry for any great period of time.

More recently the distillers have made use of a great deal of neutral spirits, some of them obtained from surplus potatoes, and a great deal of that liquor was put up, the neutral spirits contained in it were put out more than a year ago and it was brought out and mixed with other ingredients. I do not feel yet that the total grains that they would use under the restricted programs are too excessive in view of the fac-

tors involved in it, nor do I think that they have to excess in Britain. As a matter of fact, during the war the British liquor industry was restricted very heavily and still is.

Mr. HAYS. Mr. Secretary, that is exactly the comment that I had hoped would be made, because I feel that certain segments of the public are entitled to reassurance on that point, and some who have traveled with me this year looked rather skeptically at the production of liquor of various kinds in Europe, but there are strong moral arguments on the other side. In other words, it would be cruel as well as unwise for us to work into this issue some of these social ideas that involve public policy on the question of temperance. And I meant to preface what I asked with that statement. Particularly I am interested in what you said about Britain, because you will find some criticism in this country of the use by Britain breweries of grains for beer, and other intoxicants.

As to the French situation, this is how I feel about it: Whatever our sympathies on this domestic issue, France's economy is bound up with the production of wine—at least, a certain part of it is—and if they can get foreign currency through the sale of their wine, to import food and keep their people alive, I feel that it would not come with good grace from a Christian nation to be too sensitive to the question of wine. I hope this is appropriate, and I was inviting some comment from you because we are trying to save lives. Do you agree with my comment on the French situation? I feel that except for the use of grapes in France for wine, that it is not an issue in that country.

Secretary ANDERSON. I have not been as disturbed about the French wine situation as I have been faced with questions about the British distilling situation. Generally speaking, we have not been worried about the use to which grapes are put as long as they have made sure that valuable food is not thereby being lost, and I do not think that valuable food is thereby being lost because I am sure there is an adequate supply of grapes without the rather limited amount that goes to the production of wine.

On the whole, the question of the use of grains for distilling and for brewing, I feel that I have had something to do now with the administration of that for more than 2 years. During the time when it was necessary to restrict them, we did restrict them. When it was necessary to close them down, we did close them down. If given these powers again, and a situation rose where it was necessary to close them down, I would not hesitate in the slightest to close them down. But I do believe that I owe it to this committee to say that I do not believe that is the situation now and I do not believe it is likely to be the situation in the future. I think we can let these industries run—somewhat limited, but nonetheless let them run and I believe that the amount of grain that they will use on a net basis is not too much in view of our total grain suply.

Mr. HAYS. Do you have the figures for British consumption? I believe you said that during the war they were restricted.

Secretary ANDERSON. I do not have the figures on British consumption.

Mr. HAYS. But I believe you did say that it is your information that they are not increasing their use for those purposes.

Secretary ANDERSON. I do not say they have not increased some, but they were on a very low basis all during the war and still are on a heavily restricted basis.

Mr. KUNKEL. The British tell me that the beer over there was composed entirely of tax and water.

Secretary ANDERSON. I think the gentleman from Pennsylvania has given you a very good idea of what the situation is.

Mr. HAYS. Mr. Secretary, I talk like an authority on the subject of intoxicants. I am not. But I felt this subject needed some exploration and what you said is enlightening.

Mr. GAMBLE. Mr. Secretary, you said in reply to Mr. Hays that there were potatoes being used. We hear these stories about the destruction of potatoes. Could not those being destroyed, if they are being destroyed, be used for alcohol? Will you comment on some of the stories about potato destruction?

Secretary ANDERSON. I am sure that I can say to you that no potatoes are now being destroyed. We are not buying any potatoes, therefore, we would not be destroying any potatoes.

The potatoes destroyed were in areas where they could not be used by distilleries or starch plants or by any of the other byproduct or processing establishments, and they were in locations where they were not able to be distributed to charitable organizations. That is the first place where we sent surplus potatoes.

But more than a year ago, we had a crop of potatoes of something like 475,000,000 bushels—in 1946. This year we have a crop that is going to run something like 380,000,000 bushels—maybe a little more. But that extra hundred million bushels of potatoes was something that nothing could absorb. We just could find no place for them, and, as a result of that, in some spots, the potatoes were used by the distilleries to make these neutral spirits, thereby taking them out of grain market as competitors for grain, and we think it was a useful work, in addition to which it paid all the costs of running the potato program.

The revenue taxes from the making of these neutral spirits more than contributed to the Treasury enough to take care of all the potato purchase programs we had, so it worked out satisfactorily at least.

Mr. GAMBLE. I was coming down on the train after meatless and eggless days were put into effect, and a man was sitting next to me whom I had never seen before. He said, "I want bacon and eggs," and he turned to me and said, "I am going to eat them whether you should or not, because I saw a lot of potatoes at such and such a place, and I asked a man in a filling station what went on and he said, 'They are just dumping them there ready to burn them up,' so I am going to eat eggs and bacon when I want them."

Secretary ANDERSON. We were very glad to give the people the number of bushels actually destroyed. They were unfit for consumption at the time of their destruction. All those things are easy to pick out at individual spots where the program gets pretty well out of hand.

Mr. GAMBLE. That was mostly in 1946 rather than 1947, anyhow, was it not?

Secretary ANDERSON. Yes, there was a small amount of destruction in the early months of 1947 because of the excess production in cer-

tain States where potatoes are produced for the earlier markets and are not too easy to handle and keep.

We have just put out some potato goals trying to correct that situation and we believe that the potato surplus situation is much better than it was a year and a half or so ago. It is just unfortunate that a 90 percent support price on the potatoes is an incentive to the production of a heacy crop or was in the 1946 period.

Mr. KUNKEL. Mr. Secretary, do you have any estimate of the amount of wheat held by Argentina which is not committed?

Secretary ANDERSON. No; I do not. The reason I answer it that way, Argentina has supplies of agricultural products back on the farms, not in too good storage, but not in position to be moved to market with their present transportation facilities, and how much of that there is, I do not know, but Argentina does have some rather substantial supplies of wheat that might still be moved if we could get the transportation which they lack very badly at the present time.

Mr. KUNKEL. It is not committed to other South American countries?

Secretary ANDERSON. No, I think that the Argentine has pretty substantial supplies that are not committed to any other country.

Mr. KUNKEL. What do you mean by pretty substantial? I know you cannot give too accurate figures.

Secretary ANDERSON. I would say that I might mean by that from a million and a half to 2 million tons.

Mr. KUNKEL. You spoke of 50,000,000 bushels in Australia.

Secretary ANDERSON. 500,000 tons. Did I say bushels?

Mr. KUNKEL. I always get mixed up.

Secretary ANDERSON. I am sorry. I do, too.

Mr. KUNKEL. So I want to be sure what you said.

Secretary ANDERSON. I think that if the reporter will correct my testimony, either at this point or the other, the correct statement should have been 500,000 tons.

Mr. GAMBLE. I think it reads that way.

Mr. KUNKEL. Where did that come from?

Secretary ANDERSON. The Australian Government had its estimates of availabilities, and it got good growing weather, and the same thing happened to its crop that happened to our winter wheat crop this year. On the basis of acreage and conditions, as it looked early in the year, we estimated, by February or March, that our winter wheat crop would run 1,175,000,000 bushels, but by having abnormally good weather at the harvest it jumped up to 1,200,000,000, 1,300,000,000, and, finally, 1,400,000,000 bushels. The Australians found themselves happily possessed of more wheat than they thought they were going to have and very promptly turned that extra 500,000 tons in to the IEFC for allocation.

Mr. KUNKEL. They did not commit it to the United Kingdom?

Secretary ANDERSON. Seventy percent of the Australian crop is committed to the United Kingdom and this is a portion of the excess, which was not committed to the United Kingdom.

Mr. KUNKEL. So 70 percent of the 500,000 tons went to the United Kingdom?

Secretary ANDERSON. No. I think—well, it should, under that circumstance—but I think the amount that went to the United Kingdom—and I am not positive on this point—was a fixed amount. They con-

tracted for a fixed amount or percentage of the crop. Therefore, that figure was, roughly, 70 percent of the crop that went there, but I do not think they had a commitment to get any specified amount of all the crop. My understanding was the IEFC took that 500,000 tons into its allocations. Whether any of that went to Britain or not, I do not know, but I do know that 500,000 tons went to the IEFC for allocation purposes.

Mr. GAMBLE. Mr. Buffett.

Mr. BUFFETT. Mr. Secretary, I have been told by people in the meat business that there is a very real possibility or probability that prime beef on the hoof will go to 50 cents a pound in Chicago this coming spring, and that pork may go to 35 cents a pound. Do you think that possibility exists in the absence of price controls?

Secretary ANDERSON. Well, I have been very reluctant to start guessing about where prices would go in the absence of price controls, because I think that that very statement tends to become an inflationary factor.

Mr. BUFFETT. Maybe I should not ask.

Secretary ANDERSON. Well, I will be glad to say to you that the trend of prices in these last few months has been upward at such a rate that without some sort of controls the cattle and hog prices are likely to reach a new high steadily, just as they have been touching new highs recently.

Mr. BUFFETT. That is, the outlook, then, is such that it is imperative for both political parties to set up right now the best kinds of alibis they can to insulate themselves from blame when that very acute situation arises; is not that true?

Secretary ANDERSON. Well, you see, I do not have to run for election any more, so I have forgotten about that. But I would say that is a safe thing to do.

Mr. BUFFETT. You would not contend that you have lost all interest in the political parties?

Secretary ANDERSON. No; I would not contend that at all. There are too many other people who could prove otherwise, I am afraid.

Mr. BUFFETT. Tell me—you went to Europe—do you believe the farmers of Europe are making deliveries into so-called normal channels of distribution?

Secretary ANDERSON. No; I think it would be safe to say that some European grain goes into black-market hands.

Mr. BUFFETT. We had a price-control scheme a little over a year ago, and it collapsed, or something happened to it. Do you think that the new plans which the administration has formulated have been so expertly put together that they avoid the evils that developed last year?

Secretary ANDERSON. No; I would not say that it is possible to avoid all of the evils or any large part of the evils that go along with an attempt to regulate prices of meat and ration meat. It depends pretty largely upon the public acceptance of the program. If prices of meat do not appear to the public to be outrageous or out of line, they will clamor to be rid of controls. If they become extremely serious again—sometimes you get the amount of public cooperation and supervision that will make controls possible.

I have never disclaimed the statmeent which I made that nearly all rationing had to be voluntary. That, while you had a law under

which it was done, unless you had general acceptance of the desirability of rationing, it did not work well, and when the war terminated, and we reached the period, toward the end of 1945, when people were impatient and fretful and anxious to be rid of controls, the Office of Price Administration was losing its local rationing boards, at the county level, at the rate of two or three hundred a week. People were quitting. Good people. Usually the very finest people in the community. Because they had served through a war and had done a fine job. But they lost their interest at the end of that period. They felt there was no need for it.

Now, if you again get into the position where people recognize, as many people are recognizing, the threats of inflation and the possibility of short supplies, then, I believe you would have the public acceptance which can make these things work.

Mr. BUFFETT. Do you think that the absence in Europe of normal deliveries by farmers, in a situation which they must certainly recognize is extremely acute to them in their immediate area, that with a situation of that kind, American farmers can be expected to get more disturbed about a situation which is remote to them at best?

Secretary ANDERSON. I do not think it is remote to them at best, but in the European situation I think you must recognize that in some places there is a lack of a sales market, a lack of a stabilized currency, a lack of ability to buy other foods for the commodities they sell has been a great persuasion to move some of these foods they produce into the black market. I have sometimes expressed my feeling that maybe the German farmer, who does not have a chance to get anything but a currency that will not buy him much, cannot be harshly condemned because he turns somewhere else for a portion of the things that he would like to buy. I do not say that is a defense for him, but I say that he is human, and that it is pretty hard for him to be called upon to sell his grain into a market where he cannot get anything for it except a currency that will not buy him much.

They had far better cooperation this year from the German farmers than they had last year. They think now that they are going to get a very good collection out of Germany. I believe that the collection in France, if there had been anything like the sort of crop they had a year ago, would have been very satisfactory. The Italian situation is difficult. Both of those two men who are here could comment on those conditions much better than I can, but it is very difficult—it is much easier in Germany now than it is in Italy, for example, to get compliance with Government programs and set-asides. It is difficult in any area, as long as you have unstable currency and somewhat difficult conditions.

Mr. BUFFETT. Do you find that even though, in Germany, a ton of wheat at the official price is 200 marks, and the black-market price of a pound of butter is 200 marks, that still the farmer will deliver his wheat in substantially normal quantities?

Secretary ANDERSON. Well, the best answer is that he has this year. They went out and made very accurate surveys of the acreage and what the yield should be and what the farmers should deliver, and the deliveries have been coming through very well. I do not say perfectly. I know that there are places where some small portion is moving into the black market, but the reaction in Germany this year was much better than it had been previously, and I think has been quite successful.

Mr. BUFFETT. Well, Germany is in a little different position from France or Italy, in that Germany is an occupied power, and there is the threat of possible foreign force to make farm deliveries. I wonder if you could say the same thing about France.

Secretary ANDERSON. Well, I think the French deliveries have been reasonably satisfactory. They are not perfect, of course. Some grain has gone to the black market. But the French situation is not too bad.

Mr. BUFFETT. Do you know offhand of any foods that have spiraled in price in this country in the last year that have been unaffected by export demands?

Secretary ANDERSON. Meat would be the first one that I would think of.

Mr. BUFFETT. Is it not true that meat prices are primarily determined by the price of grain?

Secretary ANDERSON. Well, some people think the price of grain is determined somewhat by the price of meat. I do not know which way you would put it.

Mr. BUFFETT. Well, certainly, if corn was 50 or 75 cents a bushel, hogs would not be selling at $26.

Secretary ANDERSON. No; and if hogs were at $2, corn would not be selling for $2.

Mr. BUFFETT. No; but corn went up first, did it not, and it went up because wheat went up?

Secretary ANDERSON. I will not argue that with you. I say they are both connected. But I could go to cocoa. It has spiraled pretty fast.

Mr. BUFFETT. Of course, that is not produced domestically?

Secretary ANDERSON. No; there are other things. We were getting up a list at one time of all the things not involved in export trade which have moved up pretty rapidly.

Mr. BUFFETT. I noticed in an advertisement of the A. & P. last week in the paper they carried 20 or 30 items showing a substantial reduction in price from a year ago, and if you look over those items you find that none of them are among the things that are being shipped abroad in large quantities, with the possible exception of lard. And the contention of some of us is that as long as this large export movement continues that prices in this country will remain firm.

Now, I want to ask this further question: If the farmers of this country should decide that they did not approve of us underwriting the socialist governments in Europe, and they were to carry their dislike to the point of resistance to price fixing, that would rather upset your apple cart in case the Congress passed a bill, would it not?

Secretary ANDERSON. I think I have said that these things work best with public acceptance. I do not know just what you mean by "the farmers resisting them." If you fix a price in the market place——

Mr. BUFFETT. The farmers did something like that last October, or at least something happened that was quite a phenomenon in the way of absence of meat production from the normal channels of distribution. Some of us are afraid that might happen again.

Secretary ANDERSON. It would depend upon whether or not there was at the same time the sort of campaign for a meat holiday that gave the farmer promise that if he would hold his cattle on the ranch or in the feed lot he would get a far higher price in a very short time. But there was a very difficult situation developed in that period which I

do not think could have been quickly or easily cured, no matter what we had tried to do. Here were people who believed that there was shortly to be a termination of price controls, that there would be another holiday such as they had had in the period from July 1 to August 26, or so, and they did the natural thing.

There were pictures in the newspapers showing livestock lined up for miles on July 1, trying to bring these cattle to market on July 1. The same thing went on in October, and I think again, if it were felt this price control would be going on for a few days and off for a few days, no one would market when prices were down if he felt that he could market when prices were up. That is why I am hopeful that whatever we do, we have a very strong program aimed at voluntary cooperation in these things.

Mr. SMITH. Will you yield at that point, Mr. Buffett?

Mr. BUFFETT. Yes.

Mr. SMITH. Mr. Anderson, will you indicate to the committee a single instance where price control was in effect that it did not cause shortages?

Secretary ANDERSON. Price control was in effect on wheat when it went from 700,000,000 bushels of production to 1,100,000,000 bushels of production in the United States of America.

Mr. SMITH. That is wheat?

Secretary ANDERSON. Yes; wheat. You asked for one.

Mr. SMITH. Now, just a minute.

Secretary ANDERSON. There are a good many others where that happened. I have contended steadily——

Mr. SMITH. I did not ask for any individual item. I used the word "production" which means all production. Now, to be sure, we can expect some things to be produced in greater quantity. That would be natural. I am talking about production in general. Will you name an instance in history—and we certainly have had a great many experiences—where they had price control when it did not cause shortages of goods.

Secretary ANDERSON. Then I can get specific. We had price controls put in 1942; we were discussing them in 1941. Now, take all agricultural production, and against your 1935–39 average, using that as 100, agricultural production in 1942 was 124 percent of the base, 128 percent in 1943, 136 percent in 1944, and 133 percent in 1945. Those were all years in which there were price controls on nearly all agricultural products.

Mr. SMITH. You are naming again one product. Furthermore, you are selecting an individual year or two. I am asking this question: Are not shortages of goods a capital symptom of price control? We had price control during the French Revolution.

Secretary ANDERSON. Price control?

Mr. SMITH. Yes; under the assignat craze that went on. You had price control during colonial days.

Secretary ANDERSON. In this country?

Mr. SMITH. Yes; in this country; sure. We had price control through the war, and at the end of the war we had tremendous shortages, and they continued until price controls were removed. Then, is it not true that those shortages were eliminated, and we began to have more goods, after price controls were removed?

Secretary ANDERSON. Well, I do not believe that I could be helpful on that except to suggest that primarily the reason that you have price controls is because you have shortages of goods which develop inflationary spirals of price increases. Most of the increases that come in price are because of shortages and, therefore, price controls are put on when shortages already exist. It seems to me that is fundamental.

Mr. SMITH. But the point is, Mr. Anderson, is it not historical that they increase the shortages?

Mr. BUFFETT. You mean in peacetime?

Mr. SMITH. Of course.

Secretary ANDERSON. I do not know that they do build up greater shortages. I am having difficulty trying to formulate an answer because I have many times said that production is the greatest aid in the world to bringing prices down. I have many times said, and said it while we had price controls, that the best policeman against high prices was abundant production, that when you had tremendous quantities of goods, the temptation to bring prices down was there, and I still believe that.

Now, I do not know whether I could answer as to the whole economy, as to what happened since price controls came off. My impression is that we are going to have, in the second quarter of 1948, a smaller supply of meat than we have in 1947. It has not grown. That has not been due to the fact that farmers did not want to produce. It has been due to the fact that a shortage took place in our corn crop, and it has made it impossible for them to do the things they would like to do with their agricultural production.

Mr. SMITH. Did not production take a forward spurt immediately controls were taken off?

Secretary ANDERSON. Well——

Mr. SMITH. What do the records show?

Secretary ANDERSON. I do not know. I do not know what the records show, because I do not keep track of over-all production records. I know that the marketings of beef went up pretty rapidly when price controls came off, as did the marketings of pork, but I do not think that the production of cattle went up, and I know the number of cattle in this country is down now from what it was when price controls went off.

Mr. SMITH. That is all.

Mr. KILBURN. I saw a statement made by the head of the grain exchange in Chicago. Has the Government got enough wheat now?

Secretary ANDERSON. No.

Mr. KILBURN. Well, his statement, as I remember it, said that if the Government would announce that they were not going to buy any more wheat when the new crop came in, the price of wheat would go down. Do you think that is true?

Secretary ANDERSON. Yes; I think that is true. I do not know that the price of wheat would go down, but I would say that certainly the absence of Government purchasing would have a tendency to drop the price of wheat. There might be other factors in it that might lift it up again.

Mr. KILBURN. Are you buying wheat all the time now?

Secretary ANDERSON. No; we have not been buying wheat for the last 6 or 8 days, and probably will not be buying much wheat until after the first of the year. But we will buy some wheat after January.

Mr. KILBURN. You cannot announce that it is not going to buy any more?

Secretary ANDERSON. No.

Mr. BUFFETT. Mr. Secretary, I have just one more comment, and then I am through. A few weeks ago, President Truman said that price controls were the mark of the police state. I think that is a fairly accurate quotation in sense if not in words.

Secretary ANDERSON. Yes; he said something about a police state.

Mr. BUFFETT. Now, if the farmers in this country decide that they do not want a police state, they might very naturally rebel against a reinstitution of price controls. Is that a fair conclusion?

Secretary ANDERSON. They might, but, strangely, since this program has been under consideration, we have not been receiving much mail from farmers protesting against price controls. The farmer has been pretty badly hurt by the increased prices that he has to pay in these last few months. The farmer knows that if his grain keeps going on up to higher and higher prices, he may be in for the same sort of collapse that he went through after the last World War, and I believe he is pretty sensible about wanting a stabilized price structure. I do not think he wants price controls any more than most of the other people in the country.

Mr. BUFFETT. In that connection, I can speak from first hand, to the effect that the farmers in my district are very much disturbed over high prices, their own high prices and other high prices as well, but they have a very strong feeling that many of these high prices are being caused by a large export demand fueled by American loans superimposed upon the domestic economy, and I think they will feel that as continued loans or gifts or whatever you want to call them are made, that prices here are going to be higher, and that they will have to get high prices in order to protect themselves. That seems to be the sentiment in my district.

That is all, Mr. Chairman.

Mr. SMITH. Mr. Riley.

Mr. RILEY. No questions.

Mr. SMITH. Mr. Cole.

Mr. COLE. Mr. Secretary, the only question I have is probably in furtherance of one that Mr. Buffett suggested. We do not like controls, price controls or rationing controls. It is my idea that we should not put them on except in a critical emergency. I assume you agree with me in that, do you?

Secretary ANDERSON. Oh, yes. I do not like to see them on, either, but I can see that if the figures that were used a minute ago should materialize, a great many people would think that those prices ought to be brought under control pretty rapidly.

Mr. COLE. None of us likes high prices, granted. But there are some things that are worse than high prices, and that might be low prices, or a depression, or a panic. The thing that worries me a little is whether or not we are now or are about to arrive at such a critical period that we should take these extraordinary steps, and we have only opinions, largely, that we are about to arrive at that situation.

Secretary ANDERSON. No; I have been following the cattle and hog markets. You realize that the Price Decontrol Board voted to put cattle and hogs back under price controls in August of 1946, and it became my obligation to fix the level at which prices would be reestab-

lished. I am sure it is violating no secret to say that the Administrator of the Office of Price Administration, my good friend Mr. Paul Porter, and I had some argument about the levels at which those prices should be reimposed. We contended for a price in hogs that was near the old ceiling of $14.75. He would go to $15, maybe, but somewhere in that neighborhood.

I finally fixed the price at $16.25. In the case of cattle there was an effort to keep the ceiling at $18. And I finally fixed a ceiling of $20.25, in the hope that we could restrain prices, but at the same time stimulate production to some degree and that looked like a price that might.

Now, that is only a little over a year ago, and the price of beef moved upward pretty rapidly for a while, went to $31, $32—these are average prices for all grades—and then at the beginning of this year it looked as though it was going to move down—got down to $25. Then, with the shortage of corn crop and the evidence that there would be a high price for corn, the prices of cattle began to move upward again, and then went from $25 in May to $27 in June, 30 in July, $31 in August, $32 in September, $33 in October, and now nearly $34 in November.

I can see that that sort of sweep, with the short period still ahead, could result in very fancy and fantastic prices, and I am sure we are going to want price control on them before very long.

Mr. COLE. The thing that concerns me, Mr. Secretary, is this: Are we to be faced in the future, in each situation where prices are rising, with a demand or request for or suggestion that we again undertake the business of price control? Is that part of the economy and Government which we are accepting as a policy here in the United States?

Secretary ANDERSON. No; I think it is probably more like the situation in 1928 and 1929, when we had prosperity in the United States, but when they had difficult conditions in other parts of the world. If we had not been living in a world that touched us, we would have gotten along pretty well in this country for quite a while, but the financial crises in those other countries had an effect upon our own. I think we are again in a situation where these unusual obligations that we are assuming around the world do require that we do many things that might have a tendency to save us from a price situation.

If we could say that we were never going to export any wheat, we might have wheat prices materially lower than they are now, and that might have some effect upon corn prices and in return that might have some effect upon the prices of cattle.

For example, from 1935 to 1939 we used an average of 125 pounds of meat per capita. I am not making it possible for there to be a change in population which would affect this because that has been discounted. We produced 16,000,000,000 pounds of meat on the average during those years.

This year, 1947, we produced 23,000,000,000 pounds, but the per capita consumption of it will only be 156 pounds.

We will go down next year to 146 pounds, we think. That is our calculation. It could be proved wrong a pound or two one way or the other. But that compared with what we have once known is a magnificent amount of meat; 126 pounds from 1935 to 1936, 134 pounds from 1937 to 1941, 139 pounds from 1942 to 1943—we do not need as

much meat as we will have available next year, and yet it will be short. And it is that factor which sort of distresses me.

Mr. COLE. Well, it distresses me. This is not a question, but a final statement. I am worried, as a Member of Congress, and as a representative of my people, about this theory that there are things worse than high prices, which I said again are low prices, and in addition to that, regimentation, complete Government control—all of those things which we are attempting to combat, and I do not want, just because we not satisfied with price conditions, to immediately turn around and say, "Well, we will put them all back on. We will go back where we were during the war and have a complete regimentation of our economy."

I want to be pretty well satisfied that we are in a very critical situation before I would be willing to go along with such a program.

Secretary ANDERSON. I think you have a right to have that concern, but I do think that you should bear in mind this factor: That there are only a few things that look likely to get out of line—I do not know how many of them. As greater production comes in, we do have a tendency to settle down prices in a great many respects. Somebody was in to see me yesterday about citrus fruits and pointed out to me that citrus fruits were not going to get 90 percent of parity but might be down as low as 25 percent of parity. They have an extremely large production of them this year.

Not too long ago I was dealing with the question of raisins and apricots, things of that nature, in California, and there again they have very large production, and the prices have dropped. The price of raisins to the farmer this year will be half of what it was last. It might be even less. Now, many areas seem to have a tendency to come back gradually without this very drastic reduction of which you speak, completely going to disastrously low prices, and it would seem to be too bad if one or two things pulled the economy clear out of line. Meat might be one thing which would cause distress everywhere.

Meat is a very large part of the cost-of-living index. Meat is a very important item to manual workers who need the strength and qualities it gives; and meat, if it got badly out of line, could disturb a whole program of economies that might otherwise come to us and which might help us preserve the type of balance we want. On that basis, I have said what I have said about the importance of getting control on meat.

Mr. COLE. Thank you.

Mr. TALLE. Mr. Chairman.

Mr. SMITH. Dr. Talle.

Mr. TALLE. One more question, Mr. Secretary. Did you say a moment ago that you would buy no wheat before January 1, 1948?

Secretary ANDERSON. No; I did not mean to, Dr. Talle. I dislike making statements about what Commodity Credit Corporation is going to do because it sometimes has an effect on the wheat markets, and I have tried my very best to keep from helping one side over the other in the controversy that goes on, but I think you are entitled to an answer.

The thing I said was that we are buying no wheat now, that we will be buying very slowly between now and the end of December, and probably will expect to pick up substantial quantities of wheat in January when the income-tax situation might be different as far as farmers are concerned. We will continue to buy some flour because our

programs have not the necessary quantities of flour that we would like to have in them. We are well supplied with wheat so we do not have to buy heavily during December.

Mr. Talle. The Commodity Credit Corporation serves as your purchasing agent, does it not?

Secretary Anderson. Yes; the Commodity Credit Corporation is a Department of Agriculture organization.

Mr. Talle. Has the Commodity Credit Corporation acquired enough stock to satisfy the proposed deliveries to France, Italy, and Austria?

Secretary Anderson. No; the Commodity Credit Corporation has acquired sufficient wheat to see all of our programs through March, and our flour, fairly well supplied into the month of January. These three programs that I mentioned will carry through April. So I can only say to you that we have enough on hand to take care of all our programs, including these three countries, through March and enough flour to carry well into January. But with the flour we would like to take deliveries and purchase on that in a little more orderly fashion. It creates too much of a problem with the mills if we try to rush in with very large contracts and leave them alone at other times. We were buying not too rapidly from the mills but pretty regularly. We have had, I must say, an extremely fine cooperation from the milling industry of the country in trying to keep us satisfied with our actual needs.

Mr. Talle. Just a matter of information. What is the specific authority which permits the Commodity Credit Corporation to do that?

Secretary Anderson. Dr. Talle, I explained to a Senate group the other day, not facetiously, but with utter frankness, the fact that we have a Delaware charter as a corporation, and it is very broad, and we do have authority to acquire crops of that nature in advance. However, the Senate Agriculture Committee asked me—I am not sure but what it might have been a question asked me in the joint committee—no; it was the Senate Agriculture Committee asked me to supply them with the specific authority under which that purchase was made, and the solicitor has furnished it to me, and it is in the Congressional Record of November 26. I think that is the letter—I am not quite sure—Congressional Record of November 26, page 11030. Senator Knowland put in a letter dealing with that question.

Mr. Talle. I know some of those charters are broad. They remind me of the beginnings of the early English companies which used to say: "The purposes of this charter will be revealed in due time."

Secretary Anderson. Well, I would say, Dr. Talle, that we have about that authority, apparently. It is very broad and was meant to be broad at the beginning.

Mr. Banta. Mr. Secretary, does your contract with the mills contemplate a different type of flour for export than is normally used in our country?

Secretary Anderson. No. Well, I should not answer you that way. We make contracts with the individual mills. Some of those are for their normal flour, the flour that they use in the domestic trade in the United States. In some instances they have packed a special export flour that has gone to these areas. We do it on a bidding basis with

these mills, and we buy both types of flour. But nearly all the flour is the type of flour that is used in this country.

Mr. BANTA. Thank you.

Mr. SMITH. Mr. Monroney.

Mr. MONRONEY. Mr. Secretary, I am continually impressed by the fact that if, under conventional feeding methods and conventional food material, this country is going to be unable to meet the unlimited demands of Europe and the Far East for food it will bring about a very dangerous standard of living set-back. I wonder if you agree with that.

Secretary ANDERSON. We are going to have trouble shipping large quantities of grain year by year, but we will have, I think, sufficient grain to take care of what we regard as our necessary obligations this year.

Mr. MONRONEY. Yes; we are going to export up to the limit of our availabilities, but it will still leave Europe and Asia on a substandard diet. Do you not agree to that?

Secretary ANDERSON. Well, their diet is reduced, certainly; but it is not hopelessly reduced. It is being held at a very satisfactory level in a great many areas. It is not as varied as it should be; it does not contain the number of facts that it should; and it is not sufficient from the calorie standpoint. But, in the main, it will do a satisfactory job of taking care of this emergency.

For instance, in the case of rice we would like to see more rice available to India. French Indochina, Burma, Siam had an amount perhaps as low as 500,000 tons of rice to export only a year ago. This year they may only have a million and a half or 2 million tons, but that is a little better. Normally they used to export 5 million tons. Now they will return to that export figure, probably, in a short time when some of their transportation difficulties are ironed out.

So that the future is not too distressing, and if the amounts presently available can be shipped and we can have some cooperation from one or two other countries—and it looks now as if we may have it—I think Europe will get through in pretty good shape and Asia in reasonably good shape.

Mr. MONRONEY. One thing which prompted my question was wondering whether we, as probably the leading scientific nation, with facilities to develop new uses for foods not now being used for human consumption, are not being very niggardly in our efforts along that line.

Can you tell the committee anything that the Department of Agriculture is doing, for instance, to promote and make available the use of soybean meal as a substitute? I am informed that in almost every category soybean meal would have greater nutritional value than meat, rice, or wheat, or almost everything else.

Secretary ANDERSON. I do not know whether I have statistics on soybean use with me, but they will show the most terrific development and expansion as a source of food.

During the war we steadily increased the production of soybeans in this country. We got them grown in areas which normally produced crops which were in surplus position, such as cotton—many cotton areas turned to the production of soybean meal—and I can assure you that that increased use of soybeans has not been without some research and study on the part of the Department of Agriculture.

Mr. MONRONEY. How about export? Can you tell me how much soybean meal has been exported by this country in the last 12 months?

Secretary ANDERSON. No; I cannot tell you how much soybean meal we have exported in the last 12 months. We have sent substantial quantities of it abroad. Japan has asked for the whole soybeans. They do not want just the soybean meal. General MacArthur has requested that, and so we sent the entire soybean over there and not just the meal.

I think we can give you a very satisfactory picture of the soybean situation, which would persuade you that we are exporting soybeans in fairly large quantities. We have had to keep export controls on a great many of these things, however, or we would have gotten our fats and oils situation in the United States in pretty bad shape.

Peanuts, for example. There was a time when we were not being pressed for the exportation of peanuts, and then all of a sudden peanut meal got to be valuable. Also, peanut oils. And they wanted them in other parts of the world, but we had taken things of that nature into calculation in permitting the export of soybeans from this country so we had to balance them off. I do believe we could show a pretty substantial export of soybeans.

I will be glad to send that information to you personally, Mr. Monroney, or I will be glad to file it with the committee.

Mr. MONRONEY. I have been interested in claims made about soybean meal by various nonprofit groups which would like to see it promoted more as a human food.

Secretary ANDERSON. It is extremely valuable as a human food, and we quite agree that it is worth exploiting as a human food. We have developed special recipes for the use of soya flour and have tried to develop the use of soya flour. It is valuable. But again you get into a situation where oil is of primary interest at a particular time.

Mr. MONRONEY. Do you know anything about this so-called multiple-purpose food which was developed in the Institute of Technology of California?

Secretary ANDERSON. Yes.

Mr. MONRONEY. Is that a byproduct of the soybean after you have taken oil and other things out of it?

Secretary ANDERSON. I do not know what is in it, but we have had some specimens sent to the Department of Agriculture and an attempt was made to persuade us to use those things.

You find that when you ship food to other countries it is advantageous to ship something like wheat, which can be easily rationed, easily stored, and easily shipped, as against specialized preparations that require the construction of new facilities and when you send them to these countries are sometimes wasted because they do not know what to do with them.

Mr. MONRONEY. Perhaps I have not gotten my foot in the right door, but I have gotten the most magnificent brush-off from all these departments, including Mr. Luckman's department, when I was trying to find out what we are aggressively doing to try to find substitutes for supplies which simply do not exist in this country.

Secretary ANDERSON. When you start to try to find substitutes for human food that is a difficult problem.

Mr. MONRONEY. That is right. Science sometimes develops new sources of human food, and I think it is something more than a tongue-

in-cheek proposition and that the Department should look at the things which perhaps some of these men with test tubes, or some of these educational institutions, develop.

Secretary ANDERSON. I do not think we are trying to resist it. I might say that last summer I went up into the forest areas in the Northwest and went very carefully over a plant up there which belongs to the RFC—or did—in which the Department of Agriculture is very much interested. It is a plant that seeks to make various useful food articles out of wood pulp.

We are not hostile to the proposal that it can be done. We have fostered that program, and have stated it, and are still trying to get it to where it will be commercially worth while and the food will be usable. But I do not know what we can do other than that.

I am reminded that three big developments we had during the war—soya flour, new preparations of dried eggs, and the dehydrated vegetables. They all cost money and they took research. We do have some reserve funds and we are trying to make those research funds stretch for programs of this nature.

But I do not think that it would be possible to develop many new foods during this present situation, although I do believe that we could use areas which are not now producing their maximum of usable human foods and turn those quickly into useful areas by stimulating the production of food in countries other than the United States.

I think that is a far more hopeful field than trying to develop new food uses.

Mr. MONRONEY. That is all, Mr. Chairman.

Mr. SMITH. In that connection, Mr. Secretary, is there not some difficulty in introducing soybeans because of their nonpalatability? In other words, there seems to be a reluctance to accept that food because of the taste. There is a little difficulty in that respect?

Secretary ANDERSON. Yes. We do feel that it is possible, however, to mix it and make use of it.

Mr. SMITH. Overcome it?

Secretary ANDERSON. Yes.

Mr. SMITH. But you have had difficulties in that respect.

Secretary ANDERSON. Yes.

Mr. MONRONEY. A great many countries put it to very effective use, however. Soybean sausage in England, for instance. About the only animal matter in the sausage is the casing. It looks like something conventional and has quite a nutritional value. They are making all the ice cream you want in England today, and you are amazed when you find that you are eating soybean meal frozen with a little bit of powdered milk and a few other ingredients.

Secretary ANDERSON. The most delicious whipped cream that I have ever tasted was made solely with soybeans and never saw a cow. But those things do come along. The cost is rather high.

Mr. MONRONEY. There is some literature that I would like to have on this multiple-purpose food. I do not like to keep harping on it if the Department is sour on it, but tests have been made by charitable organizations over in starvation areas in Europe and the statistics show that children fed on the soybean diet have shown tremendous progress as against those fed on the normal ration.

Secretary ANDERSON. I do not dispute that. Any substitute that you can bring them will bring about that result.

Mr. MONRONEY. I hope the Department does not overlook the possible use of new foods because I do not think our own resources are going to be adequate to do the feeding job that is going to be required in the next few years.

Secretary ANDERSON. I do feel the greatest contribution that we can make right now is the production of additional sources of fertilizer. That is why we have been pushing so hard for the production of additional nitrogenous fertilizer. The areas of Europe can produce food if they have good seed and good fertilizer.

We think it is better for them to produce that food at home than for us to ship it to them.

I will check again on the report on the multiple-purpose food. But I did take the time to try it. I ate some of it. But there was a manufacturing difficulty in connection with each one of them which did seem to be insurmountable, and it seemed to us that it was much better to have something like wheat where we could take a boxcar and dump it into the hold of a ship.

Mr. MONRONEY. I am not arguing that that is a substitute for wheat. I am arguing that it is a supplement to wheat, the quantity of which is very limited by our own productive capacity. And I do not think we should brush off something as unworkable because it has never been tried.

We are the only country, perhaps, with the resources and the scientists to experiment and see if there are new human foods which can be made from byproducts of stuff that is now wasted.

Secretary ANDERSON. I will be glad to check it.

(The information above referred to is as follows:)

EXPORTS OF SOYBEANS AND SOYBEAN PRODUCTS FOR FOOD

The estimated exports of soybeans, soy flour, and grits, in terms of whole soybeans, are estimated at 532,000,000 pounds for the fiscal year ending June 30, 1947.

For the period July through September 1947, exports of soybeans as such were at about the same rate as during the same months of the previous year, but exports of soybean products were about 10 times as great.

Mr. HAYS. Mr. Chairman, just one short question.

Mr. SMITH. Mr. Hays.

Mr. HAYS. Mr. Secretary, are you satisfied that we are making reasonably satisfactory progress in perfecting the FAO? I find that hopes have been engendered by it, and I thought probably you might want to comment on that.

Secretary ANDERSON. I do not know that I could make a very useful comment on that matter. This is a very hard period for every type of international organization that tries to get under way.

I would have been more pleased with the FAO, I think, if it had spent more time trying to develop production in other countries instead of worrying about surpluses when they arrived.

Mr. HAYS. Well, if it meets the hopes that have been inspired, it will be a great thing; will it not?

Secretary ANDERSON. Yes.

Mr. HAYS. Thank you.

Mr. SMITH. Would you mind indicating for the record, Mr. Secretary, what is meant by the FAO? There are so many of these alphabetical agencies——

Secretary ANDERSON. That is the Food and Agriculture Organization of the United Nations. I apologize for using those letters and terms, but we get so accustomed to dealing with them that we forget they are not familiar to everyone else. But the Food and Agriculture Organization is an organization of the UN set up to develop food and agriculture policies.

Mr. SMITH. I just wanted it for the record.

Mr. SMITH. Are there any other members who wish to interrogate the witness?

(No response.)

Mr. SMITH. If not, we want to thank you, Mr. Secretary.

The committee will stand adjourned until 10 o'clock tomorrow morning, when we will hear Mr. Harriman, Secretary of Commerce.

(Whereupon, at 4:15 p. m., the committee adjourned to 10 a. m., Thursday, December 4, 1947.)

Secretary ANDERSON. That is the Food and Agriculture Organization of the United Nations. I apologize, for among the international agencies we are so accustomed to dealing with them that we forget they are not familiar to everyone else. But the Food and Agriculture Organization is an organization of the U.N. set up to look into food and agriculture policies.

Mr. CURTIS. I just wanted it for the record.

Mr. SMITH. Are there any other members who wish to interrogate the witness?

(No response.)

Mr. SMITH. If not, we want to thank you, Mr. Secretary.

The committee will stand adjourned until 10 o'clock tomorrow morning, when we will hear Mr. Hodges, Secretary of Commerce.

(Whereupon, at 4:15 p.m., the committee adjourned to 10 a.m., Thursday, December 4, 1958.)

ECONOMIC STABILIZATION AIDS

THURSDAY, DECEMBER 4, 1947

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened pursuant to adjournment, at 10 a. m.

Present: Messrs. Jesse P. Wolcott (chairman) presiding, Gamble, Smith, Talle, McMillen, Kilburn, Cole, Hull, Scott, Banta, Foote, Spence, Brown, Patman, Monroney, Folger, Hays, Riley, and Buchanan.

The CHAIRMAN. The committee will come to order.

We have Secretary Harriman back with us this morning.

We are glad to have you, Mr. Secretary. Do you have any further statement you wish to make?

STATEMENT OF W. AVERELL HARRIMAN, SECRETARY OF COMMERCE

Secretary HARRIMAN. No, Mr. Chairman; I came back to answer any questions the committee members might wish to ask.

The CHAIRMAN. Dr. Smith, I do not believe you had completed your examination of the Secretary.

Mr. SMITH. Mr. Secretary, you, of course, have endorsed wholeheartedly the so-called Marshall plan in your report.

Secretary HARRIMAN. Do you mean the committee's report?

Mr. SMITH. Yes.

Secretary HARRIMAN. Well, I personally very strongly endorse it. I want to explain, however, that this was a public committee of 19 private citizens. I was the chairman. The report was the expression of opinion of the 19 men, and I concur in the recommendations made, but my personal opinions are not fully expressed in this report.

Mr. SMITH. And you believe that the controls which the President has recommended are necessary to carry out the Marshall plan?

Secretary HARRIMAN. I believe the controls the President has recommended are necessary both to stabilize our economy and to carry out our foreign policies; yes, sir.

Mr. SMITH. In which you would include the Marshall plan?

Secretary HARRIMAN. Yes, sir.

Mr. SMITH. I would like to go over the composition of this Citizens Committee.

You have here Hiland Batcheller, president of the Allegheny-Ludlum Steel Corp., Pittsburgh, Pa. Is that a big steel company?

Secretary HARRIMAN. It is a moderate-sized company. I do not know what position it would have in the industry. It is not one of the largest, however.

Mr. SMITH. Our exports of steel have had the effect of boosting the price of steel; is that not true?

Secretary HARRIMAN. I doubt if the exports have much to do with the price of steel, the list price of steel. They do have an influence on the gray market, however.

Mr. SMITH. Do you mean to tell the committee that export of steel has nothing to do with domestic prices?

Secretary HARRIMAN. I would not say that, but I say that I doubt whether it will have as serious effect, as the price of steel is an administered price, and there is a general shortage of steel. The export prices are higher than the domestic prices, largely, and there is a gray market in some of the exports.

Mr. SMITH. Well, now, whether they are administered prices, as you call them, or any other kind of prices, would not make very much difference, would it, if they had the effect of raising prices?

Secretary HARRIMAN. Mr. Smith, I want to make it perfectly plain, as I have constantly, that all exports do affect our domestic prices to a degree. In each case the pressures are more or less. But I want to make it plain that I have consistently stated in testimony that I believe our exports do affect our domestic prices and do add to the inflationary pressures, but that there are internal pressures which are substantial as well. The two together create the dangerous situation to which the President referred in his statement to the Congress.

Mr. SMITH. Which is one of the elements requiring price control and rationing?

Secretary HARRIMAN. It certainly is.

Mr. SMITH. The second member on that group is Robert Earle Buchanan, dean of the graduate college, Iowa State College. I happen to know something about this man because he is a bacteriologist. I just wonder what special qualifications he has. I am just wondering what qualification a bacteriologist would have to determine the natural resources of the United States to carry out the Marshall plan.

Secretary HARRIMAN. He was recommended by Mr. Anderson as a man who had been, throughout his life, interested in farm problems and farm-producing problems. He is a man of standing and position.

Mr. SMITH. Pardon me?

Secretary HARRIMAN. He is a man of standing and position.

Mr. SMITH. Yes; fine standing. He has written some elegant textbooks on bacteriology. In fact, we use them in our own laboratory at home. The man has a very high standing.

Secretary HARRIMAN. I found him so in my association with him.

Mr. SMITH. I am just inquiring why he happened to be chosen to be a member of this important committee.

Mr. Secretary, you have listed Chester C. Davis, president of the Federal Reserve Bank, St. Louis, Mo. He is a Government employee, therefore, is he not?

Secretary HARRIMAN. He is the president of the Federal Reserve bank.

Mr. SMITH. That would make him an employee, virtually, of the Federal Government; would it not?

Mr. PATMAN. That is a big question, Dr. Smith. The question is who owns the Federal Reserve System. The private banks claim they own it.

Mr. SMITH. In order to avoid a controversy, let us put it this way: He is controlled by the Board of Governors of the Federal Reserve System, under statutes?

Secretary HARRIMAN. Mr. Davis has never, in my experience with him, expressed an opinion on any subject which was not his own, no matter whom he is working for or under what conditions he is working, and Mr. Davis is a distinguished citizen of the country who is extremely well informed on agricultural questions.

Mr. SMITH. Another is Robert Koenig, president of the Ayrshire Collieries Co., Indianapolis, Ind.

Secretary HARRIMAN. He is an expert in coal; he was in the United States Army; he worked for the Army in increasing the production of coal in Europe. On several occasions since then he has been to Europe attempting to help increase the production of coal in Germany. He also went to London more recently, at the request of our Ambassador in London, to advise him about the British coal situation.

Mr. SMITH. Do you know personally Prof. Edward S. Mason, dean of the school of public administration, Harvard University?

Secretary HARRIMAN. Do I know him personally?

Mr. SMITH. Yes.

Secretary HARRIMAN. Why, of course; he worked on this committee.

Mr. SMITH. Did you ever read this book, volume 2, Public Property, by Friedrich and Mason?

Secretary HARRIMAN. No; I have not read it.

Mr. SMITH. You are not acquainted with the articles contained in this book?

Secretary HARRIMAN. No.

Mr. SMITH. This book is entitled Public Policy.

Mr. Harriman, I do not intend to quote anything from this book. For the purpose of the record, I want to read the title, "Public Policy: A Yearbook of the Graduate School of Public Administration, Harvard University, 1941, edited by C. J. Friedrich and Edward S. Mason; Associate Editor, Pendleton Herring." I intend later on to comment on this book. I merely wish to call the attention of the Congress to the fact that this man, Mason, is connected with the writing of this book.

Now, Mr. Secretary, you made the statement the other day that railroads always buy things that are in short supply and stock on them; is that correct?

Secretary HARRIMAN. I said that that is a practice—I believe I said that that is a practice which they usually follow, and it is done to protect their maintenance. Spare parts are necessary to keep their locomotives going, and when things are in short supply, there is a tendency to stock up on those items in short supply to be sure to have them. That has been my experience in the railroad business.

Mr. SMITH. Did you not indicate that there could be some reduction in their inventories?

Secretary HARRIMAN. I believe there could be, if there was the power to ask that an analysis be made.

Mr. SMITH. What railroad or railroads do you specifically refer to?

Secretary HARRIMAN. I think that is a general practice.

Mr. SMITH. You think it is a general practice?

Secretary HARRIMAN. Yes, sir; in the business interests of those companies.

Mr. SMITH. Do railroads speculate in the purchase of materials?

Secretary HARRIMAN. No; not generally. I do not know of any way in which they do, but they try to get a stock of materials on hand to protect their operations, and in many cases, when things are in short supply, there is a tendency to hold more than is absolutely necessary.

Mr. SMITH. Does that pertain to supplies other than those which are consumed currently, such as are subject to sudden and unusual demands?

Secretary HARRIMAN. I did not understand.

Mr. SMITH. Railroads have sudden and unusual demands upon inventories; do they not?

Secretary HARRIMAN. That is correct.

Mr. SMITH. Do they carry any more inventories than that situation warrants?

Secretary HARRIMAN. I say there is a tendency to protect their operations by carrying heavy inventories of those things that are in short supply in order to insure their operations, and, as a result, there is a tendency to overstock on those items that are in short supply, and I believe that investigation would show that their policies could be to reduce some of their purchases of those things which were in short supply during the emergency period.

Mr. SMITH. What is the amount, in terms of dollars of inventories, held by the railroads at the present time?

Secretary HARRIMAN. I do not have those figures with me. I can supply them if you are interested.

Mr. SMITH. You do not happen to have them in mind?

Secretary HARRIMAN. No, I have not. I am not a walking encyclopedia, sir.

Mr. SMITH. I thought that you were pretty well versed in the railroad business.

Secretary HARRIMAN. I have not paid any attention to the railroad business since I went into the service of the Government in 1940, June of 1940.

Mr. SMITH. Would the figure of $742,000,000 be about what you would expect them to have?

Secretary HARRIMAN. I would not want to even comment on a figure without checking it.

Mr. SMITH. You know, do you not, that during wartime exactly what you are recommending to this committee was carried out? Reduction of inventories of railroads was made.

Secretary HARRIMAN. I am not familiar with that. I am speaking from my experience, which goes pretty much over a lifetime in the railroad business.

Mr. SMITH. You do not know that the inventories were reduced to a level where the Office of Defense Transportation had to change its decision and allow the railroads to accumulate more inventories?

Secretary HARRIMAN. I am not familiar with that. I was abroad, as you well know, sir.

Mr. SMITH. And you do not happen to know, sir, that the inventories, according to Association of American Railroad figures are less today than they were at the lowest level during the war?

Secretary HARRIMAN. I am talking of my experience with railroad practices over a lifetime, and it is my belief—I gave it as an example—that there could be some adjustment of railroad inventories in the short items. We could get their cooperation if there was the authority to make the investigation. That is an opinion which I expressed as a basis of my knowledge of the normal practices. I have also testified, sir, that I thought that in certain areas the railroads should get priority of steel in order to increase the car supply.

Mr. SMITH. But if you should either take my word for the statement or learn from original sources that the inventories of railroads are now dangerously low, you would not think you could get very much from that source, would you?

Secretary HARRIMAN. I do not think that you can deal with inventories as a whole. They must be analyzed category by category, and it may well develop certain areas that they do need priority in car repair, for example, to keep the cars running. Such an investigation, I believe, would show certain surpluses. Some railroads may have more than others. Some railroads may be in short supply, and others may be in adequate supply. I believe that by a study and a distribution of those things that are in short supply, we can break some of the bottlenecks, both in getting them the materials they need and in preventing undue accumulations.

Mr. SMITH. Well, let the record show very clearly that, according to the Association of American Railroad figures as supplied me, that the inventories of the railroads in the United States are today at a dangerous low. They are about where they were when the Office of Defense Transportation reversed its determination to reduce those inventories and allowed them again to accumulate additional inventories.

Now, you have been associated, Mr. Secretary, with the New Deal practically from its inception, have you not?

Secretary HARRIMAN. I have had various positions with the Government. I was for two periods associated with the NRA—for about 5 months, I think, in the winter of 1934, and then again I was asked to go back as administrative officer of the NRA when the Board was appointed, of which Mr. Thay Williams was chairman. I was administrative officer, I think, from November 1 to the end of NRA.

After that I had no Government position until I went to the first board that was set up on National Defense. I had a position with that association, I believe, on the 1st of June of 1940. In the meantime the only position that I held with the Government was as a member of the Business Advisory Council to the Department of Commerce during the thirties, and I was for 2 or 3 years its chairman.

Mr. SMITH. You were Deputy Administrator in the NIRA under General Johnson, were you not?

Secretary HARRIMAN. I was one of the administrators under Johnson, and subsequently the administrative officer under the Board which was appointed, I think, in October of 1934.

Mr. PATMAN. I think you should bring his service down to date, doctor. You got down to 1940. Will you bring it down to date?

Secretary HARRIMAN. In June 1940 I had a position with the materials end of the Defense Committee—I worked under Stettinius at that time—and in March of 1941 the President appointed me as his representative to go to London to see what could be done to be of assistance to the British Empire.

I worked in that position, and later on represented the various agencies of the Government after we came into the war. I was the American representative on the London Combined Shipping Board, I represented our production agencies here—Lend-Lease—during that period.

I went to Russia in September of 1941, in connection with the first supply mission, to see what was needed and what we could do to help the Russian defense against the German invasion.

Subsequently to that I was appointed Ambassador to Russia in October 1943 and served in that capacity until February, I think it was, of 1946.

I resigned and retired to private life at that time, and the President appointed me—I believe it was early April of 1946—Ambassador to Great Britain, where I served until about the first of October of 1946, when the President asked me to return to the United States and assume my present position of Secretary of Commerce.

Mr. SMITH. You have read the Supreme Court decision on the NRA, have you not?

Secretary HARRIMAN. I certainly have.

Mr. SMITH. Now you are here before this committee asking for all these governmental powers—price control, rationing, and so forth; that is true, is it not?

Secretary HARRIMAN. I am sorry, sir; I did not hear that.

Mr. SMITH. I say you are here now advocating a restoration of price and wage control, rationing, and so forth.

Secretary HARRIMAN. I am here advocating the President's program, for authority in certain areas to control prices under conditions that he defined. I am in strong advocacy of the President's program.

Mr. SMITH. That is all.

Mr. PATMAN. I think I am next, Mr. Chairman, but we only have a few minutes.

The CHAIRMAN. I wonder if we could continue until there is another call.

Mr. PATMAN. I know the Secretary is awfully busy and I am inclined to ask that he be released.

The CHAIRMAN. I might say this is our situation: We thought that we might dispose of Secretary Harriman before the House convened at 11 o'clock. Tomorrow the House convenes at 10 o'clock and it is very obvious that we cannot hold hearings while the House is in session. I thought we might get permission under the circumstances to meet and I wondered whether we should meet while the House is in session on this very important matter.

It is obvious that we cannot meet this afternoon or tomorrow morning, therefore, and we find it is inadvisable to meet on Saturday, so our next session will probably be Monday, at which time Mr. Eccles is scheduled to appear. But if we cannot dispose of Secretary Harriman today, that will revise our schedule somewhat, and I will welcome any suggestions as to whether we should adjourn now to go to the floor and ask Mr. Harriman to come back Monday, and ask Mr. Eccles to appear later in the week.

Mr. PATMAN. Mr. Chairman, in view of your statement I will pass in the hope that we can get through with Mr. Harriman today.

The CHAIRMAN. I should like to try, but it may be a matter of 20 minutes or half an hour perhaps before the bells ring, and we might be able to get through.

Mr. PATMAN. I will pass in the hope that we can get through.

The CHAIRMAN. Mr. Spence.

Mr. SPENCE. In order to complete the history, Mr. Harriman, what was your position before you entered the Government service?

Secretary HARRIMAN. I was a partner of the firm of Brown Bros., Harriman & Co., bankers, and chairman of the executive committee of Illinois Central Railroad Co. and the Union Pacific Railroad Co.

Mr. SPENCE. And you ceased those activities when you went into Government service?

Secretary HARRIMAN. I had a leave of absence from the Union Pacific and the Illinois Central and remained as a partner of Brown Bros., Harriman & Co. until—I was inactive—until I took my present position, at which time I resigned from both boards of directors of the railroads and also changed my relationship with my firm. I have become a limited partner and have no interest other than a fixed return on my capital in that firm.

Mr. SPENCE. I think the Government is to be congratulated that there are men like you who are willing to give up their private business to serve, because we need them very badly.

That is all.

The CHAIRMAN. Dr. Talle.

Mr. TALLE. I will pass.

The CHAIRMAN. Mr. Monroney.

Mr. MONRONEY. I will pass, Mr. Chairman.

The CHAIRMAN. Mr. Folger.

Mr. FOLGER. I have no questions.

The CHAIRMAN. Mr. Cole.

Mr. COLE. I will pass.

The CHAIRMAN. Are there any further questions? Mr. Buchanan?

Mr. BUCHANAN. I believe the Secretary has been grilled sufficiently. I pass.

The CHAIRMAN. I think, for the purpose of the record, there is one question that I should like to ask, Mr. Secretary. It has not been brought out here, except incidentally, whether it is expected to set up a new agency to administer these controls or whether the power would be given to the agencies having jurisdiction over the various products affected by the program.

Secretary HARRIMAN. The program is, as I understand it, if the authority is granted to the President, that he will delegate to the existing departments of Government and agencies directly involved the different powers which are given to him.

The Department of Agriculture would then have charge of the agricultural food commodities; Interior, fuel; and the Department of Commerce would be responsible for the export controls, the allocations in connection with the commodities involved, and such price controls as were in the field of, as the President indicated, clothing, textiles, and the basic commodities which basically affect the cost of production.

Then, the rent control would be under the present administration, and the Office of Defense Transportation would continue under the Office of Defense Transportation.

The CHAIRMAN. You are not asking us, then, at the present time to create a new agency for the purpose perhaps of coordinating these activities?

Secretary HARRIMAN. That is correct; the coordination would be through a Cabinet committee of the Cabinet members affected and there might be a small central staff to coordinate the information and to keep the program in balance, through the Cabinet committee.

The CHAIRMAN. All right.

Thank you very much, Mr. Secretary.

The committee will stand in recess until Monday morning at 10 o'clock.

(Whereupon, at 11 a. m., the committee adjourned, to reconvene at 10 a. m., Monday, December 8, 1947.)

ECONOMIC STABILIZATION AIDS

MONDAY, DECEMBER 8, 1947

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee reconvened, pursuant to adjournment, at 10 a. m.

Present: Messrs. Jesse P. Wolcott (chairman) presiding; Gamble, Smith, Kunkel, Talle, McMillen, Kilburn, Cole, Hull, Stratton, Scott, Banta, Foote, Spence, Brown, Patman, Monroney, Folger, Riley, Buchanan, and Multer.

The Chairman. The committee will come to order.

We have with us this morning Mr. Marriner Eccles, Chairman of the Board of Governors of the Federal Reserve System. I understand he has a statement to present.

We will be glad to have you present your statement without interruption, Mr. Eccles.

Before Mr. Eccles proceeds, however, I wish to call attention to the fact that we have a new member with us this morning, Mr. Abraham Multer, of New York, who has taken the place of Mr. O'Toole.

Mr. Multer, we are very glad to have you, and I am sure the members of the committee will all try to make it as pleasant for you as we possibly can.

This committee is one big happy family. We have a perfect understanding of each other's idiosyncrasies. We fight like brothers during the meetings, and then go out to lunch together.

We are very glad to have you here, and will be glad to have you participate in the activities of the committee.

Mr. Multer. Thank you, Mr. Chairman.

The Chairman. Proceed, Mr. Eccles.

STATEMENT OF MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. Eccles. Mr. Chairman and members of the committee, I have a prepared statement which is rather voluminous, and a good portion of it is rather technical, and deals with the special reserve plan which has been suggested by the Board to the Joint Committee on the Economic Report. This is the first time that I have had the privilege of appearing before this committee with reference to that subject, so, if I may, I will go ahead and read it.

The Chairman. We will be very glad to have you proceed, Mr. Eccles.

Mr. Eccles. In appearing before you today I wish to make clear that I am speaking for the Board of Governors of the Federal Reserve

System, an agency of Congress, and I am not undertaking to speak for the administration or the presidents of the 12 Federal Reserve banks.

You have requested me to testify, I take it, as to what might be done in the monetary and credit field to deal with inflationary forces, which have already gone so far as to cause very serious maladjustments within the economy. I am sure this committee recognizes that a great many factors and forces contributed to the inflationary problem and that there is no easy, simple, or single remedy. As I have previously stated, we are already in the advanced stages of inflation. Correction is overdue and the longer it is postponed the more severe will be the inevitable reaction. At best, monetary and credit policy can have only a supplemental influence in any effective treatment of either inflation or deflation.

In the absence of a comprehensive scheme of controls, we must continue to put our main reliance on fiscal policy, which is by far the most effective way to deal with the demand side of the equation, while we do everything possible to maintain and increase production. I have previously outlined other steps which I believe should be taken if we are to deal effectively with the basic causes of current inflationary pressures.

Now, I want to read a little more in detail than is in my statement, so I am going to refer to the statement I made before the Taft committee in outlining what I suggested as a program.

If I were to outline a program to meet the situation with which we are faced, I would list the following steps to deal with the causes, rather than with the effects, of inflationary pressures. They are listed in what I consider their order of importance.

1. Increased productivity, both at home and abroad. Production is the ultimate solution for inflation. Nothing could be more effective than increased productivity of labor, and I would like to add that is especially true in the construction industry, where I think productivity of labor is especially low. We cannot say that labor lacks full productivity in all respects, but I think the construction industry is particularly weak in that regard. In short, if all who are engaged in producing goods and essential services were to work more, save more, and spend less, the unbalanced relationship between demand and supply would most effectively be corrected and prices would come down.

2. The suspension of future demands for wage increases, especially those of organized labor, where the increases have been greatest, is necessary if the present unbalanced relationship is to be corrected without severe deflation.

Business profits after taxes are more than double what they were in any prewar year, and almost double the profits in any war year, and, therefore, business should hold prices down, or should reduce them, in accordance with what would be reasonable earnings.

3. A fiscal policy to produce the largest possible surplus, to be used to pay off bank-held Government debt, and thus reduce the money supply. This means the greatest possible economy in all Government expenditures. It means more adequate financial support of the tax-collection machinery of the Government to prevent tax evasion; it means no general decrease in tax rates at this time. It should also mean the elimination of the agricultural support program unless price ceilings are reimposed.

4. Legislation—and that is the thing that I am appearing on here, but I wanted to get it in its proper perspective to the over-all program—legislation giving the Federal Reserve System such authority as may be necessary to restrict further over-all expansion of bank credit. The need for this authority would be less if Congress authorized other anti-inflationary measures, such as restoration of consumer installment-credit restrictions, and if stricter appraisals and less liberal credit terms were applied under the Veterans' Administration, the Federal Housing Administration, and the home-loan bank programs of home financing. With respect to the Federal Housing Administration, I am thinking particularly of title VI and not title II.

In that connection, I presented to the Taft committee a statement on the question of housing credit and its relationship to inflation, which Mr. Taft had asked, before I come up, that I be prepared to say something about. So it was as a result of that request that I prepared the statement on housing, which is a two-page statement, and which I would like to put into the record here today.

(The statement on housing referred to above is as follows:)

STATEMENT BY CHAIRMAN ECCLES ON HOUSING FINANCE BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT

One of the most inflationary factors—perhaps the most inflationary single factor—in the present situation is excessively easy mortgage credit for housing. During the past 2 years the amount of such mortgage debt has increased by more than $9,000,000,000, and the rate of current mortgage lending has risen from about $550,000,000 per month to about $1,000,000,000 per month. Terms of lending have eased substantially as compared with prewar. A large proportion of recent loans has been made on an installment basis at 4 percent interest on the unpaid balance for a period of between 20 and 25 years. Most of these loans have been made for a very high percentage of current sale price, which is greatly inflated.

More than half of the current unprecedented volume of mortgage lending is sponsored by the Federal Government under legislation enacted by Congress. The Government must therefore assume much of the responsibility for any adverse effects of this type of lending. Prices of houses have advanced from 25 to 35 percent during the past 2 years. A large number of families of moderate and low income have been encouraged to assume mortgage debt which will be beyond their means when the present inflationary period is over, and is becoming increasingly burdensome as the cost of living goes up. Sellers and builders of houses have been enabled to make exorbitant profits. The Government has assumed and continues to assume contingent liabilities of great proportions.

It is entirely inconsistent to restrict credit terms on automobiles and other consumer durable goods, partly to reduce the inflationary pressures and partly to protect the buying public, and at the same time to make housing credit terms so easy as to stimulate inflation and encourage people to go too deeply in debt. Any anti-inflationary program of the Government will lose much of its effectiveness so long as the Government sponsors the present inflationary housing credit program.

Easy credit has greatly increased the effective demand for both old and new housing far beyond the supply, and this has greatly inflated prices. In an effort to meet the demand and take advantage of this profitable market, builders have undertaken to construct a larger volume of housing than there are resources readily available to finish. As a result, published prices of materials have advanced and, in addition, a gray or premium market has developed for many building materials. In this competitive market, the services of labor are also being actively bid for, and bonuses and other extras have become common.

The predominant feeling in the building industry is that only by building at current rates or even higher can the housing shortage be met and only by keeping demand high can the current levels of production be maintained. The prices that are being established now, however, are too high for long-sustained building. At inflated prices of materials and labor and inflated profits for builders, a few more houses may be produced than would be the case if prices and profits were lower, but that condition makes it less likely that the market next year and the

year after that will be able to pay the prices necessary to keep building going at the rate needed to overcome the housing shortage and stabilize this segment of the economy. An increasing number of families are being priced out of the market now, in spite of the extremely easy financing terms, even though their need for housing is very great.

If the easy credit situation were producing a substantial additional volume of housing at supportable values in the long run, it would be justified, but because of the limitations of labor and materials it produces, instead, a dangerously inflated market which cannot be sustained for both new and old houses. I believe that by curtailment of credit for housing in closer relationship to the supply of labor and materials, the price trend would be reversed and a market for houses assured over a long period of years. Good low-cost housing cannot be built with high-cost materials and high-cost labor. Neither Government nor private industry can produce this miracle.

For the reasons which I have stated, Congress should reconsider in the longer term interest of the country the present policy and program of the Federal Government in the field of housing credit. I shall be glad to be of any assistance I can in making suggestions for changes in the present housing credit programs. At this time I am merely indicating the nature of some of the changes that seem desirable.

Operations under the National Housing Act and the GI bill of rights are closely related in practice but not in law or in administration. These two programs sponsored by the Federal Government should be brought together so that appraisals are made by only one agency.

The 100 percent loans under the program of the Veterans' Administration for both old and new houses and the nominal 90 percent loans on new houses under title VI of the National Housing Act should be revised so as to reduce the demand for housing and thus bring prices down. This means that both buyers and builders should have more equity in their properties than under the prevailing lending policies so long as present inflationary prices continue for housing.

Lending by members of the Federal Home Loan Bank System should be subject to greater restraints by the use of a conservative, uniform appraisal system, and by selective restriction on the terms of their loans.

Finally, from the long-range standpoint it is vitally important to prevent inflation in the housing field from getting any worse than it is. The greater the inflation, the more severe will be the aftermath of defaults, foreclosures, liquidations, and bankruptcy. Over the years the construction industry, which is a major outlet for investment and supports a wide variety of related manufacturing, transportation, and distributing activity, has been characterized by violent upswings and downturns. If greater stability could be introduced into this field, it would go far toward achieving the national objective of stabilizing production and employment at high levels. The more the backlog of demand for housing is filled at exorbitant prices now, the smaller will be the cushion under the entire industry when prices come down and, therefore, the more intense the deflation in the industry will be. Manifestly, this is not in the best interest of the general economy, and what is not good for the country as a whole is not good for any group, veterans or otherwise. As has been well said, there is no such thing as easy credit; true, it is easy to get into debt, but the easier it is to get in the harder it is to get out. That applies to all of us, including war veterans.

Mr. GAMBLE. Do you have additional copies so that the committee members would have them?

Mr. ECCLES. I do not think we brought sufficient copies, but we will send for them and distribute copies before the hearing is over. It is a two-page statement and covers the housing situation in the inflation picture as we see it.

Mr. GAMBLE. If it would be particularly helpful to the Joint Housing Committee, I am for it.

Mr. ECCLES. 5. Expansion of the Treasury's savings bond program, with adequate financial support by Congress. Funds so raised have a twofold effect.

Mr. PATMAN. Where are you reading from, Mr. Chairman?

Mr. ECCLES. Well, I am reading from a statement that I presented before the Joint Committee on the Economic Report, which was

rather a comprehensive statement, and this comittee was given copies of that statement. I am merely giving this over-all program a little more completely than is included in my statement to be presented here today, and I am just about through with that aspect of it.

As I was saying, the funds so raised have a twofold effect. That is, savings bonds funds. It removes these funds from the spending stream, and makes them available to pay off bank-held debt, thus reducing the money supply.

Other actions have been proposed which, however, deal with the effects rather than the causes. Allocations, construction permits, price and wage ceilings, commodity margin requirements, export and rent controls, and similar devices are all in the category of curbs rather than cures. Where they can be aplied as a practical matter, and enforced, they can be useful, but they do not go to the sources of the inflation problem.

Now, it has been implied, because of what was said here, that the Board was opposed to any of the other controls which were proposed as methods of dealing with the inflation problem. That is not true. We have been merely pointing out the difference between dealing with causes and dealing with effects which I think everybody will recognize. To the extent that causes are not dealt with, of course, the necessity of dealing with the effects of inflation by direct means is that much more essential and pressing.

In dealing with causes, the results may be rather slow. You do not get the effects of either a fiscal program or a credit restriction program immediately, whereas there may well be certain direct controls required to deal with an immediate emergency situation such as export controls, which is a typical example. Irrespective of other things, you certainly need some export controls. That may likewise be true of certain goods where there is an acute shortage and where the cure can only be increased production, which cannot be brought about quickly, such as, for example, certain commodities which have been referred to, where some allocations or direct controls dealing with such commodities may be necessary.

So I am thinking in terms, perhaps, of a little longer view of the problem, and certainly to the extent that the causes are not dealt with vigorously, there will be a greater pressure to deal with the effects by direct action. I think we all recognize that the job of application and enforcement of some of these direct controls becomes very onerous and very difficult. But it is always a question, when you deal with problems of this sort, of alternatives.

I just wanted to make it clear that what I am saying here is not to be taken to mean that we are offering these proposals as substitutes for any direct proposals which might appear to be necessary. I haven't had an opportunity to study that particular phase of the subject and am not prepared to say what direct proposals should be provided or are required. That is not my field, whereas this is.

The legislation proposed would give the Federal Reserve System authority to require banks to hold a special reserve which would be in addition to existing regular reserves, and might be held in Treasury bills, certificates, or notes, as well as in cash assets.

Need for this authority would be less if appropriate fiscal policies are continued and Congress restores control of consumer installment credit and if stricter appraisals and less liberal credit terms were

applied under the Veterans' Administration, the Federal Housing Administration, and the home-loan bank programs of housing finance. During the next 4 months there is likely to be little need for the special reserve requirement because of the large amount of Treasury surplus funds, taken from the market through taxes, which will be available to retire bank-held public debt. Then, unless powers are granted, we may be exposed to an unbridled expansion of bank credit, because the Reserve System's existing powers, in the face of its newly acquired responsibilities for the Government security market and in the face of a continued inflow of gold, are insufficient to restrain further bank credit expansion. A precautionary grant of increased powers now is necessary to guard against disaster later.

Banking leaders who have already had some opportunity to study the features of the proposed special reserve plan and have arrived at opinions adverse to its adoption, voice this opposition along two lines of argument.

On the one hand, they affirm that the plan is impractical, socialistic, and unnecessarily drastic. On the other hand, they assert that the plan is not strong enough to accomplish its expressed objectives. The contrast between these two lines of argument is striking. They cannot both be correct; the proposed special reserve plan cannot be too drastic and at the same time be altogether inadequate.

The type of authority proposed is neither novel nor revolutionary. A similar authority was provided under the Banking Act of 1935 in the power to raise reserve requirements of member banks to twice the then prevailing statutory level. This power had been entirely utilized by the outbreak of war in immobilizing gold imports of prewar years. As a matter of fact, the power was not sufficient to immobilize the gold imports. After using the entire authority of doubling the reserve requirements, there were still substantial excess reserves in the banks, and interest rates were at an exceedingly low level. The demand for credit was likewise, before the war, very, very low.

During the war, the requirement for banks in New York City and Chicago was reduced from 26 to 20 percent of net demand deposits in order to relax temporary pressures on the central money markets and to facilitate war financing. Except for the 6 percentage points of requirement applicable to central reserve city banks, no margin for the further increase in member bank required reserves now exists.

The inflationary dangers inherent in the war emergency were widely recognized in the early phases of the national defense program. In late December 1940, the Federal Reserve Board, the presidents of the 12 Federal Reserve banks, and the Federal Advisory Council unanimously joined in a special report to the Congress pointing out the inflationary dangers for the national economy as a whole in the defense effort, and advising that the authority of the Federal Reserve System was inadequate to deal with the existing and potential excess reserve problem of the banks. Certainly if it was inadequate then, as they all realized, why do they say that it is not inadequate now? I am speaking of the council who make that claim.

Accordingly, this special report recommended that Congress—

(a) increase the statutory reserve requirements for demand deposits in banks in central reserve cities to 26 percent; for demand deposits in banks in reserve cities to 20 percent; for demand deposits in country banks to 14 percent; and for time deposits in all banks to 6 per-

cent. In other words, they were asking that the statutory reserve requirement be doubled, which meant that the reserve requirement provided by the statute plus the authority in the Board to double that be made a permanent statutory reserve requirement.

(b) Empower the Federal Open Market Committee to make further increases of reserve requirements sufficient to absorb excess reserves, subject to the limitation that reserve requirements shall not be increased to more than double the respective percentages specified in paragraph (a). The power to change reserve requirements, now vested in the Board of Governors, and the control of open-market operations, now vested in the Federal Open Market Committee, should be placed in the same body.

(c) Authorize the Federal Open Market Committee to change reserve requirements for central reserve city banks, or for reserve city banks, or for county banks, or for any combination of these three classes.

(d) Make reserve requirements applicable to all banks receiving demand deposits regardless of whether or not they are members of the Federal Reserve System.

And, in addition to these major recommendations, the special report of 1940 urged that the needs of the defense program be financed as far as possible from existing deposits and from tax revenues rather than from inflationary borrowing from the banks.

I bring the report to your attention because at that time all were in favor of increasing the basic reserve requirements of commercial banks. I particularly commend the special report of 1940 to your attention because the power to increase basic reserve requirements is a far more onerous and drastic power than the special reserve plan, which the Board of Governors now proposes.

The special plan, however, is identical in purpose to an outright increase in regular reserve requirements. The plan, in fact, is no more than an adaptation of this method of restricting bank-credit expansion in a banking situation profoundly altered by war finance and by the huge wartime increase in public debt. The plan would enable the banks to retain the same volume of earning assets they now have in place of making them reduce earning assets as would an increase in regular reserve requirements, with adverse effects upon bank earnings.

In its annual report for 1945 the Board indicated that there were three alternative methods for dealing with the monetary aspects of the postwar inflationary problem inherent in the postwar banking situation: First, a limitation on the Government bond holdings of banks, second, an increase in their regular reserve requirements, and, third, the holding of short-term Government securities or cash under a special reserve requirement.

After exhaustive study of the problem, the Board has selected the special reserve method as the least onerous, the most equitable, and the most practicable method. It has now set forth the detailed specifications of its plan on the basis of minimum needs to meet prospective problems of bank-credit expansion.

These specifications provide for the immobilization, even at the maximum, of only a part of existing large holdings by commercial

banks of Government securities. They also provide that the special reserve requirement could be imposed only gradually, and that, if inflationary bank credit expansion can be otherwise brought under check, the requirement would not be imposed at all.

As you will notice, the plan provides that after the first 10 percent of the requirement, that not less than 60 days' notice would have to be given before any other requirement could be imposed, and then not more than 5 percent at any one time.

Under the plan suggested, the individual banker would be left in the same competitive position he is in today. Contrary to what has been stated by the National City Bank letter—just out—and others, banks would not be under legal compulsion to buy Government bonds; the holding of Government securities in lieu of cash or balances with other banks to meet the special reserve requirement would be entirely optional with the individual bank.

The Board's special reserve plan is a middle-of-the-road proposal for helping to deal with the credit and monetary aspects of the difficult and complex inflationary situation. The Board feels, however, that the purpose of restraining further inflationary expansion of bank credit can be adequately accomplished by the specifications it has drawn for the plan, if its use is accompanied by appropriate fiscal and other policies. It would seem that the bankers would prefer the new proposal to an increase in regular reserve requirements, which they recommended for adoption in 1940 to deal with anticipated inflationary dangers.

The Board recognizes that the proposal is no panacea, but it would be an important restraint available to be used, and to be used only, in the event of continued inflationary banking developments.

The Board further recognizes that it would have been better to have had the power available for use earlier. Had the Federal Reserve System been given the additional power that was recommended in 1940, it would no doubt have used it already in view of developments during and since the war.

It would seem desirable to have the special reserve authority available now to restrain inflationary credit expansion, should its use become necessary, rather than to wait until further expansion has developed. The further the inflation goes, the more difficult and sensitive the situation becomes, the greater is the resistance to measures that would accomplish some restraint, and the more delicate is the task of applying such measures. If some particular measure of restraint is involved at a critical period, it might be considered by the public to be responsible for bringing about the downturn, even though the downturn would have happened in any case.

I should like to refer to the authority given the Board to impose margin requirements on broker and bank loans for the purpose of buying listed securties.

There was authority given at the bottom of the depression, when its use was entirely unnecessary. That is possibly the reason it was given. As a result of the difficulties of the late twenties, the use of credit in the stock market and the collapse thereafter, authority was given to the Board to impose that restriction. It was not used for a considerable time. It was after the war when the full power given the Board was applied.

I am sure that if the Board had not been given the authority when inflation. I am concerned about preventing more inflation because the authority at a time when the market was booming.

The fact that that authority has been in the hands of the Board has no doubt gone a very long way in restraining the use of credit in the market, and as a result loans on securities are as low as they were prewar, and possibly lower, and that today is the soundest and possibly the only part of the entire credit structure which has not been inflated and, therefore, is in a position where in a deflationary period it will not have to go through the deflationary wringer to the extent to which many other aspects of our economy, such as housing, will likely have to go.

I am more concerned about the ultimate deflation than I am about inflation. I am concerned about preventing inflation because the longer it goes the more difficult the deflationary problem becomes.

For most people inflation is rather a pleasant experience. It is true the fixed-income groups, the pensioners, and so forth, are suffering, but for the great majority of people, they are much better off—especially the farmers, the organized workers, and the business interests—than at almost any other time. But when the deflationary process develops because the unbalanced situation becomes so great that the inflationary situation can no longer be sustained, then, of course, the longer the inflation goes the more serious, the more drastic, and the more difficult the deflationary period is, the more difficult it becomes to deal with the deflationary situation, and the state may have to intervene on a greatly increased scale to deal with that situation, and it's because ~~I am so con~~cerned, ultimately, with the deflationary effects, if this inflationary period is permitted to go until it breaks of its own accord, that I have been undertaking, for the last 2 years, to stress and to point out to the committees of Congress, and to the public, the serious dangers of not maintaining a greater degree of stability in the economy, because instability on the up-side means an instability and a deflation on the down-side—in the process of liquidating the excesses of the inflationary period.

Therefore, I wanted this committee to get that point. We do not want to think entirely in terms of inflation, and that things are not so bad, and conditions are not so unpleasant now, and, therefore, the pressures to deal with the inflationary period are not so great, unless we realize what it means to us a little later on when this thing finally breaks and runs its course.

I can well understand the feeling of some within the Reserve System that the System will be held responsible for the deflation if the use of this requirement—if we be given the responsibility—should coincide with a deflationary readjustment. It is because of this possibility that the Board would be glad not to have the grave responsibility for using this authority, because inflation has already gone so far that its use in bringing about a deflation can be pretty serious—less serious than would have been the case a year ago or 2 years ago. Its use a year ago to prevent the inflation would have been much more desirable than it its use today, in a situation as delicate as this situation is in bringing about a deflation.

The System is not desirous of assuming the onus of bringing on a deflation. Nevertheless, the Board feels that the System should not

shrink from bearing its own share of responsibility for restraint on further inflationary developments in the credit field.

For some months the Reserve System and the Treasury have been activity cooperating in a program combining monetary, fiscal, and debt-management restraint on current inflationary bank-credit expansion. Some moderate, corrective rise has been permitted in wartime levels of interest rates on short-term Government securities—the rise on certificates has been approximately a quarter of 1 percent—together with some adjustment in yields on long-term issues from very low levels. In other words, the long-term yields were about 2¼. The long-term bonds have gone down close to par so that the yield is approximately 2½. But the thing which has brought it down mostly has been the huge demand for capital funds, particularly by the various municipalities, due to the rise in municipal rates—and, by the way, you will recall that they are entirely tax-free. There has been a shifting from long-term Governments to more profitable municipal securities and industrial and utility issues, with the dropping of the price of those securities and the increase in the rate. Those developments have been more of a factor, I am sure, than the slight increase in the short-term rate.

In addition, excess funds in the Treasury balance arising from current budget surpluses have been applied to the retirement of maturing Federal Reserve bank-held Government securities.

The System has also urged all banks to maintain conservative standards in the extension of consumer installment credit—a letter was sent out prior to the discontinuing of regulation W advising the banks of the need of following through on a voluntary basis the credit restraint that was applied under regulation W—and has joined with other Federal and State bank supervisory agencies in urging all banks to confine bank credits to financing that will help production rather than merely increase consumer demand. That statement by the supervisory authorities on bank credit, which was sent out recently, was initiated by the Board because it was our desire to use every possible means at our disposal, persuasion and otherwise, to get the banks to curb the rapid credit expansion that was going on. The Comptroller of the Currency's office, the Federal Deposit Insurance Corporation, and State banks' commissioners worked with us, or we worked with them, in developing a joint statement which has been sent to all banks.

This modest program of restraint adopted in October by the Federal Open Market Committee and accepted by the Treasury, together with other policies, followed since early in 1946, has reversed the processes that contributed so strongly to the wartime expansion of bank credit. That is, the shifting from short-term securities into long-term securities, which was the process that went on. The banks were selling the shorts and buying the longs. That process has been reversed.

The System will continue to carry out this program as long and as vigorously as possible. The proposed special reserve plan is not designed as a substitute for this modest program, but would supplement and reinforce it. The plan would not, of course, be used if this modest program proves to be sufficiently effective.

Over the next 4 months, the use of the suggested special reserve would not be necessary because of the large amount of Treasury surplus funds taken from the market in taxes, which will be available to

retire bank-held public debt—largely Federal Reserve-held debt. This retirement would temporarily exert pressure against bank-credit expansion. At the same time it must be recognized that present forces of credit expansion are very strong indeed. Despite the pressures of fiscal policy during September and October—and we were paying off then—which drew upon the bank deposits—the Government did—and permitted the retirement of over one billion dollars of Government securities held by the banking system, deposits of businesses and individuals at commercial banks increased by 2.5 billion dollars, reflecting largely extension of bank loans to businesses, consumers, and owners of real estate. Current reports indicate that the expansion of credit to these groups of bank customers continues to be at an unduly rapid rate.

The Federal Reserve Board wants it understood that it is not pressing for the enactment of the proposed special-reserve requirement. The Board is an agent of Congress and its responsibility, even though at times an unpopular responsibility, is to point out to Congress the dangers which it sees in the existing bank credit and monetary situation.

The Board further wishes to point out that, in the event of continuing rapid expansion in the total volume of bank credit, the alternative to the proposal or some other more onerous and restrictive program would be a substantial increase in discount rates and withdrawal of the Reserve System's support from the Government securities market. A final alternative is simply to let inflation run its course.

Now, those are not pleasant alternatives.

First, the proposal, if credit continues to go; then, the first alternative is it would be which the Board proposes, or some proposal that is more restrictive than that, or to withdraw from support of the Government market entirely and let it go where it would, and raise discount rates; and fourth, just to do nothing but let the inflation run until it breaks of its own momentum.

The people who talk about raising interest rates—the discount rate—and not supporting the Government market, but letting that go where it would, are assuming that a rise in interest rates might stop inflationary developments. There is no assurance that that would be true, because a rise in rates that was substantial would certainly cause the holders of the E, F, and G bonds to sell those securities. And they be left in cash then to spend instead of being locked up in 50 billions of savings bonds if the rates went higher.

Mr. PATMAN. It would stop the housing program, too, would it not?

Mr. ECCLES. It might either stop it or—during the period of the twenties, I recall the very high interest rate structure, the from 6- to 7-percent call money did not stop the speculation in the stock market. We saw that go up from 1925 to 1929 with the increasing rates, and, as the rates increased, the volume of business seemed to increase. It did not stop the terrific building boom which went on during the twenties, because they paid 7 and 8 percent for money for your skyscrapers and other buildings throughout the country.

The cashing in of bonds by savers, if you let the interest rates go, might be inflationary, rather than deflationary, based upon past records.

Mr. PATMAN. I refer to the 4 percent program of housing.

Mr. ECCLES. Oh, it would upset that completely.

Another factor in the situation would be this: You must remember that, if failing in any way to give support to the Government credit, we can compare it to 1921 when no support was given by the Federal Reserve, and a 4-percent entirely tax-exempt Government bond went down to about 82 or 83, when there was a total public debt of only $26,000,000,000 in its entirety, where would the Government secure marketing today, where would a 2½ percent bond, which is the long-term market bond, where would a 2¼-percent market bond go, a 2½ percent entirely and fully taxable bond go, with a public debt of $258,000,000,000? I just want to point out what did happen with the 4 percent fully tax-exempt bond when the public debt was only $26,000,000,000. So there is nothing more important to everyone in this country than maintaining stability in the Government security market, that people have complete confidence in the Government and Government obligations. That market must be kept, and a market must be provided, and the Federal Reserve System must assist the Government and the Treasury in managing that market, now that the war is over, as it did in managing it in financing the war. There is no alternative course in that regard, so far as I am concerned.

It is our opinion that the present discussions of the banking and monetary problem in Congress, in the public press, and in banking councils are having a beneficial influence. As a result of these discussions, bankers throughout the country are gaining a better understanding of the current inflationary situation and of the relation of their banking policies to inflation. It may well be that the perspective thus gained on the national problem and on the relationship of the individual bank to it will encourage a voluntary program of restraint on the part of many bankers. If such self-restraint is sufficiently effective to avoid further over-all expansion of bank credit, then, the purpose of the special reserve plan will have been met at least for the time being. The bankers as individuals cannot be blamed for causing the present inflationary spiral although their operations as a system have made it possible. However, in the future if there is further over-all expansion of bank credit and the bankers resist any restraint on such expansion, there would be some justification in assigning some blame to them for the contribution of bank-credit expansion to continued inflationary developments.

I should like now to present for the information of your committee a description of the proposed special reserve plan. You have been given copies of a statement which presents a detailed description. This statement is necessarily technical at some points because the effort has been made to make the explanation in all respects complete, and to answer every technical question that might be raised about the plan, its operation, and its banking effects.

PROPOSAL FOR A SPECIAL RESERVE REQUIREMENT AGAINST THE DEMAND IN TIME DEPOSITS OF BANKS

In order to provide a more effective means of restraining inflationary expansion of bank credit, the Board of Governors of the Federal Reserve System proposes that Congress pass legislation granting the System's Federal Open Market Committee temporary authority to

impose gradually as conditions may warrant a requirement that all commercial banks hold a special reserve. This reserve should be in addition to reserves required under existing laws. It should be calculated, within limits fixed by law, as a percentage of demand and time deposits and should consist of Treasury bills, certificates, or notes, balances with Federal Reserve banks, cash or cash items, or interbank balances.

NEED FOR THE SPECIAL RESERVE REQUIREMENT

This special requirement would make it possible for the Federal Reserve System to immobilize a portion of these assets. This immobilization, however, would be only for the purpose of preventing their use for the purpose of obtaining additional reserves to support expansion of credit to private borrowers. Moreover, as gold acquisitions create bank reserves, they could be offset by an equivalent increase in the special requirement. The additional requirements would also reduce the possible multiple expansion of bank credit on the basis of any increase in reserves.

At present high levels of employment and output further expansion of the total volume of bank credit is inflationary because it would increase the active demand for goods and services, which is already in excess of the productive capacity of this country's existing industrial structure and labor force.

So long as the public debt is as dominant a part of the country's financial structure as it is at present the Federal Reserve System has a responsibility for maintaining orderly conditions in the United States Government security market. In practice this means that the System stands ready to purchase Government securities offered for sale if they are not taken by other purchasers. Whenever the Federal Reserve buys Government securities additional bank reserves are created, and these in turn supply the basis for an expansion of bank credit of more than six times the amount of the reserves.

Ability of banks to increase reserves: Commercial banks currently hold about $70,000,000,000 of Government securities. As is shown in the chart, this sum exceeds their prewar holdings by more than $50,000,000,000 and is about three-fifths of total loans and investments. In addition to this great expansion in holdings of Government securities, commercial banks also have increased their loans and holdings of other securities. Transfer of any part of these Government securities to the Federal Reserve banks creates reserves on which a sixfold expansion of credit can be built. The potential inflationary expansion of the money supply is thus enormous. Reserves arising from gold acquisitions or Federal Reserve purchases of securities from nonbank investors may add still more to this potential.

The opportunity which the banks now have to create new reserves on their own intiative by selling Government securities to the Federal Reserve System is not a long-established right, but is one of the heritages of war finance. In wartime the Federal Reserve System was under obligation to provide banks with sufficient funds to purchase Government securities in excess of those sold to nonbank investors. After the war the necessity of providing a stable and orderly market for the vast public debt outstanding has in effect made the Federal Reserve System the ultimate or residual market for Government secu-

rities. So long as this situation continues and the banks are free to use their Government securities to obtain reserves at will there is no effective restraint on bank credit expansion.

Prior to the war the ability of banks to expand credit was limited by the existing supply of bank reserves, which was largely subject to Federal Reserve control. Except during the period of large gold inflow which brought an excessive volume of reserves, the available supply of bank reserves was determined principally by the volume of member bank borrowing from the Reserve banks or by Federal Reserve purchases and sales of bills and securities in the open market. These open-market operations were definitely regulated in amount so as to provide the supply of reserves required by the economy. Variations in prices and yields on Government securities were an incidental result of these policies.

Need for Federal Reserve support of Government securities market: Under present conditions large-scale and continuous Federal Reserve open-market operations are essential to the maintenance of an orderly and relatively stable market for Government securities and are a necessary adjunct of the Treasury's program for managing the economy's huge public debt of $260,000,000,000. The System often purchases and sells securities amounting to hundreds of millions of dollars in a week. In October and November, System purchases totaled 3.2 billion dollars, sales 1.2 billion, redemptions of maturing issues 2.1 billion, and exchanges of maturing for new issues 8.2 billion. Large-scale Federal Reserve transactions are at times essential for the maintenance of a market for Government securities. In view of the System's greatly enlarged responsibilities for the Government-securities market and in view of the volume of such securities now held by banks, the System no longer has adequate power to influence the potential volume of bank credit in the way it could before the war.

It is illuminating to know the extent to which public debt has become a dominant factor in the country's financial structure. The United States Government debt, which was never more than a third of private and other debt before 1941, is now one and a half times the remaining debt. That part of the public debt which is marketable amounts to $167,000,000,000, compared with 69 billion of stocks and 15 billion of non-Government bonds listed on the New York Stock Exchange and an estimated 13 billion of marketable securities listed on other stock exchanges throughout the country.

Today Government securities are widely held as liquid investments which can be readily sold and, therefore, transactions in them are likely to be frequent. This liquidity rests in considerable part on having the Federal Reserve System provide a residual, assured market for purchase and sale of Government securities.

In these circumstances, it would be entirely inadequate for the Federal Reserve System merely to revert to the prewar practice of purchasing and selling only definite amounts of securities, determined solely on the basis of the economy's need for bank credit or for the purpose of offsetting the effects of gold or currency movements on bank credit. The System needs to take into account, in addition to other factors, conditions affecting the Government-security market. Traditional actions through discount rate policy are largely irrelevant, because the banks have little or no occasion to borrow funds to main-

tain reserve positions so long as they can sell Government securities for this purpose.

Since the Reserve System has to engage in constant buying and selling of United States Government securities on a large scale, the prices or rates at which these transactions are effected are necessarily determined by the System. In fact, under present conditions, the structure and level of interest rates on Government securities which the System helps to maintain in the market have become the principal expression of Federal Reserve policy instead of the volume of purchases and sales.

Limited effectiveness of increase in rates on Government securities: Control of interest rates on Government securities, however, is not an effective instrument for achieving monetary objectives. A moderate rise in yields on Government securities will not prevent, and will only slightly restrain, banks from selling securities in order to make loans. An increase in rates large enough to exercise real restraint on banks would generally be too great or too abrupt to be consistent with the maintenance of stable conditions in the market. Even an intimation that such a policy might be followed may lead to a flood of selling. The System might find itself under the necessity to support the market and in the process might create more reserves than it would have created through meeting the demands of banks in an orderly market. This is the postwar monetary paradox.

Purpose of special reserve: The special reserve proposal is designed to place some restriction on the newly acquired privilege of banks to obtain at will more reserves on which to make more and more loans. It is not, as has been asserted by some of its critics, a revolutionary device to compel banks to hold Government securities. The proposal contains no such compulsion. If any bank chooses to hold the special reserve in cash or on deposit with another bank or with a Reserve bank it would be free to do so. At the same time the proposed measure would not require banks to reduce their holdings of Government securities.

The proposal would give the Federal Reserve System no new power to interfere with bankers in running their own banks but it would restore to the System some of its previously held authority to exercise regulatory power over the available supply of bank reserves. There is nothing new or revolutionary in that.

Under the proposed authority it would be possible to insulate a part of the Government securities market from private credit and permit the Federal Reserve System to use open-market operations and discount rates more freely to affect conditions in the private credit market. Thus, the authority would make it possible to limit the volume and raise the cost of private credit without necessarily increasing the interest cost to the Government on an important part of the large public debt outstanding.

Special features of the proposed temporary authority may be briefly summarized as follows:

(1) Banks subject to the provisions would be required, in addition to their regular reserves, to hold a special reserve consisting of: (*a*) Obligations of the United States in the form of Treasury bills, certificates and notes (with original maturities of 2 years or less; or (*b*) cash items, as defined in the next paragraph, to the extent that their

total exceeds 20 percent of the gross demand deposits plus 6 percent of time deposits.

(2) For this purpose cash items would include the following: (*a*) Balances with Reserve banks, including statutory required reserves; (*b*) coin and currency; (*c*) cash items in process of collection; (*d*) balances due from in excess of balances due to banks in United States.

(3) The special reserve requirement would apply to both demand and time deposits and would be subject to a maximum limit fixed by statute. A maximum of 25 percent of gross demand deposits and a maximum of 10 percent of time deposits will probably be adequate for the temporary period covered by the proposed statute.

(4) The requirement would apply to all banks receiving demand deposits, including member banks of the Federal Reserve System and nonmember banks—insured and noninsured. It would not apply, however, to banks that do exclusively a savings business.

(5) The power to impose and to vary the special reserve requirement would be vested in the Federal Open Market Committee and would be limited by law to a temporary period of 3 years.

(6) The requirement would be introduced gradually as credit conditions warrant. The authorizing statute could provide that, after a special reserve has been established of 10 percent against gross demand deposits and 4 percent against time deposits, further changes would not exceed 5 percent of gross demand deposits and 2 percent of time deposits at one time. Ample notice should be given before the effective date of the initial application of the requirement, or of subsequent changes, to allow banks adequate time to make adjustments.

(7) The following considerations should determine the timing of the introduction of, or changes in, the special reserve requirement: (*a*) The volume and ownership of special reserve assets and of other assets readily convertible into eligible assets; (*b*) past and prospective gold movements, currency fluctuations, or other factors causing changes in the volume of bank reserves; (*c*) conditions in the Government securities market; (*d*) the general credit situation.

(8) Special reserves and requirements would be computed on a daily average basis for monthly periods, or for other periods by classes of banks as the Open Market Committee might prescribe. The penalty against average deficiencies in the requirement would be one-half of 1 percent per month, payable to the United States.

(9) The Federal Open Market Committee would be authorized to issue regulations governing the administration of the requirement, to require necessary reports, and to delegate administration with respect to nonmember banks to other appropriate Federal or State banking agencies.

OPERATION OF THE PROPOSAL

Establishment of the special reserve requirement would accomplish two principal purposes: (1) It would reduce the amount of Government securities that banks would be willing to sell to obtain additional reserves; and (2) it would decrease the ratio of multiple credit expansion on the basis of a given amount of reserves. These results could be accomplished without reducing the volume of earning assets of banks.

Reduced availability of secondary reserve assets: The special reserve requirement would not deprive banks of any earning assets but would

reduce the available amount of highly liquid and readily salable assets which banks hold as secondary reserves to meet losses of deposits and new credit demands. Because of the reduction in these operating secondary reserves, banks would be less willing to sell Government securities held in excess of the requirement in order to acquire higher-yielding loan or investment assets. Thus, an effect of the special reserve requirement would be to reduce the creation of new reserves and expansion of bank credit through sale of Government securities to the Federal Reserve.

Lower multiple-expansion ratio: Reduction in the ratio of multiple credit expansion on the basis of any addition to the supply of reserves would be an important effect of the special reserve requirement. How great a reduction from the present ratio of 6 or more to 1 would result from the proposal will depend on the percentage requirement established. It would also depend on the banks' holdings of assets eligible for the special reserve and their ability to acquire them from sources other than the Federal Reserve. It is not feasible to estimate the extent of the reduction in the ratio—but under present conditions—with the easiest source of the needed reserve material being the Federal Reserve banks—the ratio, at the maximum required rate of special reserve, may conceivably decline from the present figure of 6 to as low as 2½.

Influence of existence of power to impose requirement: The existence of power to impose a special reserve requirement would itself exert a strong restraining influence on bank-credit expansion. Banks would need to guide their policies with an eye to the possible imposition of the requirement. The extent of use of the special reserve requirement would necessarily depend on developments in the general credit situation.

Reinforcement of other instruments of credit regulation: Other instruments of Federal Reserve policy could be so used as to facilitate adjustment to the new requirement and subsequently would be employed to apply such additional restrictions or such easing as the general credit situation might require. From the monetary point of view the principal purpose of the proposed new requirement is to make possible the more effective use of the existing instruments in offsetting changes in bank reserves—particularly open market operations and discount rates—without seriously upsetting the Government securities market and unduly raising the interest cost on the public debt.

The Federal Open Market Committee, which would have authority to apply and vary the requirement, is composed of all seven members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks. The Committee's present authority covers the System's Government security and other open market operations. The use of the proposed special reserve requirement would be closely related to these operations.

Bank lending for essential needs not prevented: Restraints on further bank credit expansion by the proposed requirement, supplemented as the situation may warrant by other credit control measures, would not prevent the accommodation by banks of the economy's essential credit needs. The additional reserve requirement, however, would put the banks under pressure to attempt to meet essential credit demands out of existing loanable funds. To expand loans, banks would

need to sell securities of types that might be bought by other investors, rather than short-term Government securities which under present conditions are purchased principally by the Reserve banks.

ADVANTAGES OF THE PROPOSAL

Rise in interest rates largely limited to private credit: The proposed measure has many important advantages over alternative means of curbing credit expansion. It is frequently suggested that restraint on further bank credit expansion could be accomplished by allowing short-term interest rates, both on public and on private credit, to rise substantially, thus increasing the cost of borrowing and thereby seeking to deter borrowing. It is doubtful that such a policy would effectively deter borrowing, and, in any event, it would greatly increase the cost to the Government of carrying the public debt and might have disruptive effects on the Goevrnment securities market. Under the proposed authority, interest on private credit could be raised without increasing rates on Government securities. In other words, the higher rates would be paid by those who are currently engaged in inflationary borrowing and who might be deterred by them. These rates would not be paid by the Government, which is reducing its indebtedness.

Restraint on lender: Restriction of inflationary expansion of total bank credit to private borrowers can be more effective if the restraint is placed primarily on the lender. Under present conditions, even such a substantial rise in short-term interest rates as 1 or 2 percentage points would not deter many borrowers, and might encourage further lending because of the additional profit inducement to the lender. Under the proposed measure, the restraint is placed primarily upon the lender, that is, the banking system. By limiting the ability of the banks to make credit available, the proposal would thus be a retarding influence on further bank credit expansion. As already stated, banks would not only charge more for loans they make to private borrowers but would be more cautious in extending such loans. The latter may be a more important restraint than the former. Higher rates are not an effective deterrent in boom conditions but difficulty in obtaining credit is a powerful restraining influence.

Preferable to increase in regular reserve requirements: It has been suggested that the same result might be achieved by an increase in existing basic reserve requirements of banks. If this were done, however, banks would have to meet the increase by selling Government securities, which the Federal Reserve System would have to buy in order to supply the needed reserves. This would decrease the banks' earning assets and their earnings, whereas the proposed special reserve measure would enable them to retaing earning assets. The continued profitability of bank operations is essential if the banks are to meet their increasing costs and build up adequate reserves while serving their communities constructively.

To increase primary reserve requirements would also raise difficult jurisdictional, legal, and administrative problems with reference to nonmember banks, whereas the specific form of the proposed special reserve requirement, as more fully described in the next section, is designed to fit the sort of banking system that exists in this country without alterations in its structure or drastic changes in is customary methods of operation. Banks that are not members of the Federal

Reserve System would have to be included. Limitation of the requirement to member banks only would seriously weaken the Federal Reserve System by giving a great advantage to nonmembership and therefore would make the measure ineffective, as well as inequitable. The new measure, as proposed, would assure equitable treatment of individual banks and groups of banks without requiring that all banks become subject to a single authority. The proposed requirement would also make use of the practice of interbank deposits without interfering with the system of correspondent relations.

In summary, the proposal would require banks to hold a large portion of the Government securities which they were encouraged and permitted to buy to aid in war finance and still allow them to meet all essential credit needs of the economy. It would assure the maintenance of a high degree of liquidity and safety in the banking system during a period of rapid and uncertain economic change. It would not necessitate changes in existing banking structure or procedures.

The Board believes that the proposed plan is the most effective and practical method of dealing with the present monetary and credit situation because it assures that the pressures will be exerted at the places where restraint on bank-credit expansion is needed, namely, in the field of private loans. At the same time the plan will protect the interests of the Government, the general public, and the banking system.

FORMULA FOR COMPUTING THE SPECIAL RESERVE REQUIREMENT

As explained earlier, the special reserve requirement might be placed as high as 25 percent of demand deposits and 10 percent of time deposits or at some lower level. The assets that would be counted as special reserves include Treasury bills, certificates of indebtedness, and notes having original maturities not exceeding 2 years, as well as certain specified nonearning or cash assets in excess of 20 percent of demand deposits and 6 percent of time deposits. This deduction makes a uniform allowance for required regular reserves and other customary operating funds of banks. Computation of the formula is illustrated in table 1 attached.

Reasons for selection of Government securities to be included in special reserve: Only Treasury bills, certificates, and short-term notes are proposed for inclusion in the special reserve and other Government securities are eliminated for a number of reasons. The volume of bills, certificates, and notes can be more easily limited to relatively stable amounts. Inclusion of Government bonds within 1 or 2 years of maturity or call dates would result in wider variability in the total outstanding amount of eligible reserve assets. To include all Government securities would make necessary a very high reserve requirement in order to be an effective restraint. Since banks holdings deposits subject to withdrawal on demand or short notice should maintain a high degree of liquidity, securities which are short term at issuance are more appropriate assets for them to hold as reserves.

The inclusion of longer-term, higher-rate securities in the formula would make it possible for banks to continue to shift their lower-rate issues to the Federal Reserve and to purchase higher-rate bonds in the market. Unless requirements were very high most banks would have an excess of special reserve assets and could sell short-term securities

to the Reserve System. Limitation of the requirement to bills, certificates, and notes with low coupon rates would make it necessary for banks to sell their higher-rate issues in order to expand loans. This would be more of a discouragement to lending than sale of low-rate, short-term issues and also the higher-rate issues would be bought more readily by others than the Federal Reserve. Finally, the limitation would improve the market demand for reserve-eligible issues and help to maintain a lower rate on short-term Government borrowing without lowering long-term interest rates, which are an important source of income for investors of savings.

Reasons for including cash assets: The proposed eligible cash assets include balances with the Federal Reserve banks, coin and currency, cash items in process of collection, and balances due from, in excess of balances due to, other banks in the United States. However, only the excess of the sum of these items over an amount needed for required reserves and other customary operating funds customarily held by banks would be counted in the special reserve. A level of 20 percent of gross demand deposits, and 6 percent of time deposits, uniform for all banks, is proposed as an equitable statutory amount for these customary operating funds. What the banks hold above this amount will be eligible to count as special reserves. Banks of all classes typically hold these cash items in an aggregate amount equal to the sum of about 25 percent of gross demand deposits and 6 percent of time deposits.

Provision in the formula for some margin of cash assets, as well as the specified short-term Government securities, is desirable to accomplish the purposes of the special reserve authority. Confining the eligible special reserve assets to Government securities would cause difficulties to banks obtaining new funds and not holding adequate amounts of the required securties; they should be permitted to count their cash as reserves until they could acquire, or in case they could not acquire, Treasury bills, certificates, or notes. Banks ought not to be compelled to buy such short-term securities in order to meet the proposed special reserve requirement, if for operating reasons they prefer to hold excess cash assets. Cash holdings, moreover, are ever more effective in meeting the purposes of the requirement. From the standpoint of avoiding credit expansion, a formula limited to short-term Government securities would be less effective than one which includes cash in the special reserve.

Allowance for differences in banking laws and procedures: An equitable formula should allow for the great variations that exist among groups of banks with respect to basic reserve requirements and with respect to holdings of different types of cash assets, without interfering unduly with these requirements and practices. If the requirement were limited to member banks, only excess reserve balances at Federal Reserve banks and the specified Government securities might be allowed to count as special reserves. Reserve requirements for nonmember banks, however, not only differ from those for member banks but also vary from State to State. For nonmember State banks, balances due from banks constitute the major part of reserves required by State law, and the excess of such balances over statutory requirements comprise other operating funds, or secondary reserves. Member banks hold their required reserves, and perhaps some excess, on balances with the Federal Reserve banks, but member banks also hold

balances with correspondent banks as part of their operating or secondary reserve funds. Both nonmember and member banks would undoubtedly prefer to continue the practice of holding part of their operating funds as balances due from other banks.

Permitting banks to count all of their balances due from other banks in cash items eligible as special reserve assets would present an opportunity for building up fictitious reserves through the pyramiding of interbank balances by multiple exchange of deposits among banks. To prevent such a development, insofar as practicable, the special reserve plan would permit balances due from other banks to be counted as eligible assets only to the extent that they exceed balances due to other banks. Any other treatment of interbank deposits would invite evasion and jeopardize the objectives of the plan.

The proposed formula for the computation of cash assets eligible for satisfying the special reserve requirement treats member and nonmember banks alike, insofar as differences in practices and laws permit.

It avoids interference with established correspondent relations, and, in fact, makes use of these relations. In the interests of administrative simplicity, the proposed formula is uniform for all banks.

AVAILABILITY OF SPECIAL RESERVE ASSETS

The formula and its application to certain broad groups of insured banks, using aggregate figures as of June 30, 1947, is illustrated in table 1 attached.

Differences by groups of banks: The table shows that banks in each major group have an excess of cash assets over the minimum allowance and also have more than enough special reserve assets available to meet a requirement established at 10 percent against gross demand deposits and 4 percent against time deposits. At the statutory maximum suggested for the requirement, namely, 25 percent against demand deposits and 10 percent against time deposits, the different groups show deficiencies in holdings of eligible assets of varying percentage amounts. New York City banks held the smallest amount of eligible assets relative to their deposits, while country member and nonmember banks held the largest amounts.

The variation in the percentages of deficiency or excess in special reserve assets at the selected levels is still wider, of course, when studied by groups of banks according to Federal Reserve districts. This point is illustrated in table 2 attached, which is also based on figures for June 30, 1947. Each group in each district would be able to meet the lower level of requirements used. Data for individual banks would show even greater differences than appear for the groups of banks in table 2, and some banks might have deficiencies in holdings of eligible assets even at the lower requirement level.

Adequate supply of special-reserve and other liquid assets: In considering the deficiencies in eligible special reserve assets that banks might confront at certain requirement levels, it must be remembered that banks hold substantial amounts of short-term Government bonds that may eventually be refunded by the Treasury into eligible assets or that could be converted through the market into such assets. In general, the Federal Reserve would purchase the bonds and sell banks

reserve-eligible securities. Holdings of short-term bonds as percentages of gross demand deposits at mid-1947 are also shown in table 2.

According to figures relating to the ownership of the public debt on September 30, 1947, shown in table 3, all commercial banks holding about $15,000,000,000 of Treasury bills, certificates, and notes (for simplicity of computation these figures include some notes which had original maturities of over 2 years, and, therefore, would not be eligible as special-reserve assets under the proposal. These, however, mature shortly and in any event could be readily shifted into reserve-eligible securities) and in addition 6 billion of bonds due or callable within 1 year and 30 billion of bonds within 1 to 5 years. These holdings were widely distributed among individual banks. As these bonds mature or are called they may be refunded by the Treasury through issuance of securities eligible to be held as special reserves. The amount of Treasury bills, certificates, and notes issued can be made to depend on the need of the banking system and the demand for such assets.

As table 3 indicates, moreover, the Federal Reserve System holds $22,000,000,000 of Treasury bills, certificates, and notes, which banks could acquire by selling to the System other Government securities. About $12,000,000,000 of eligible obligations are also held by nonbank investors, and these might be bought by banks. Thus the total of Treasury bills, certificates, and notes outstanding is nearly $50,000,000,000, compared with gross demand deposits at commercial banks of $100,000,000,000. The amount of such securities outstanding may be decreased through debt retirement or increased through refunding of bonds. It is estimated that, after allowing for probable reduction in total marketable debt and for refunding of all other retired issues into reserve-eligible securities, the total amount of such securities outstanding will continue fairly close to the present level for the next 3 years. The amounts held by banks may be increased by purchases from other holders.

Thus banks could readily obtain enough bills, certificates, and notes to meet a special reserve requirement of 25 percent. They could still hold substantial amounts of short-term securities as secondary reserves free for operating purposes, but the amount of such freely available funds could be materially reduced by the requirement.

Now, I should like to talk extemporaneously on the subject. I hope you may take the time to read this report, because only by studying it will all the aspects of it be understood.

I have here some charts that I would like to use for the purpose of discussing this question.

Mr. BROWN. Mr. Eccles, Government securities went down to 82 or 83 during the World War I; is that right?

Mr. ECCLES. That is right. In 1920, after the war.

Mr. BROWN. Well, now, what about the guaranty on these securities? Are they guaranteed not to go below par?

Mr. ECCLES. Oh, no.

Mr. BROWN. I have in mind the E bonds.

Mr. ECCLES. Oh, well, as war as the E, F, and G bonds are concerned, they can just be converted into cash over night.

The CHAIRMAN. At par?

Mr. ECCLES. That is right. But if they were cashed, the Treasury would have to get the money to pay them. In order to do that, the

Treasury would have to sell new securities, chiefly in the open market, and the Federal Reserve would certainly have to keep buying Governments in order to pump enough reserves into the market so that the dealers and banks would take all that were currently offered.

Mr. BROWN. They would be cashed at par, though, would they not?

Mr. ECCLES. Surely.

Mr. SMITH. In terms of dollars, not in terms of purchasing power.

Mr. ECCLES. Well, of course, par does not deal with purchasing power. It did not in 1929, as related to 1932. There has always been a fluctuation in the purchasing power of the dollar or any other currency, so far as I know. It would be wonderful if we could avoid any fluctuation in the purchasing power of our dollar, but even when it was backed by gold, the purchasing power of it still changed very greatly, even though the price of gold did not change.

Now, I have brought these charts so that the committee may get a picture of what has happened and what serves as the basis of inflation. I think that we will all recognize that when money and credit are in excess of the supply of goods and services and the money and credit are also in the hands of those people or institutions that will spend them—that is, when it becomes an effective demand exceeding the effective supply, then such excess money and credit necessarily must be the basis of inflation. I think we will all agree, too, that as the supply of money is increased through further bank credit more rapidly than we can increase goods or services, you get increasing inflationary pressure. That is basic, of course.

And certainly, without an excess of effective money and credit with relation to goods and services, you could not have inflation.

Mr. SMITH. Mr. Chairman Eccles, will you restate that last proposition?

Mr. ECCLES. I said that you could not have an inflation if the supply of money and credit in the hands of those who would spend it was less than the supply of goods and servcies available. Thus, in 1932, 1933, 1934, and 1935, we had an excess supply of goods and services in nearly every category, and we had a deflationary situation—great unemployment—and it was not because there was not a demand, but it was because there was not an effective demand. The credit and the money was not available in the hands of those who would spend it to purchase the supply of goods and services available.

Mr. SMITH. Do you think that the goods and services will ever be able to catch up with the volume of money, as you call it, and credit, in this instance?

Mr. ECCLES. Well, I could not say as to that.

Mr. SMITH. Is that not what you are here for?

Mr. ECCLES. I am not here to make any prophesies. I am here to present the facts of the situation to you, Dr. Smith.

Mr. SMITH. Well, you have suggested a proposition for curing that. That is the point.

Mr. ECCLES. I did not present a proposition for curing it at all. We do not propose this to cure inflation. It was made very clear that this is one of the tools that should be used in connection with fiscal policy and other policies, and that the idea of curing over-all in-

flation by credit means is not something that we either believe in or advocate.

Mr. SMITH. It is then just one cure; is that the idea?

Mr. ECCLES. It is not a cure; it is an assistance.

Mr. SMITH. One of the medicines?

Mr. ECCLES. That is right. You see here on this chart the total deposits and currency. This is at the time of the First World War.

Time deposits and demand deposits. They went up very slightly.

The Government bonds which went into the banking system, you will notice, were very, very minor. The amount of financing by the banks during the Frst World War was a very negligible factor in the picture.

Mr. SMITH. Do you have the exact figure, Mr. Eccles?

Mr. ECCLES. No; I do not have it here. But we can get it.

Mr. SMITH. I wish you would put it in the record.

Mr. ECCLES. Very well.

(The document referred to is as follows:)

Loans and investments of all Commercial Bank

[In billions of dollars]

WORLD WAR I

Call date	Total loans and investments	Loans	U. S. Government securities	Other securities
1914—June 30	16.9	13.2	0.8	2.9
1915—June 23	17.5	13.5	.8	3.2
1916—June 30	20.4	15.8	.8	3.9
1917—June 20	23.9	18.2	1.5	4.1
1918—June 29	27.4	20.1	3.2	4.1
1919—June 30	31.8	22.4	5.1	4.3
1920—June 30	36.3	28.1	3.7	4.4
1921—June 30	34.2	26.1	3.4	4.8
1922—June 30	33.9	24.7	4.0	5.3
1923—June 30	37.1	26.9	4.7	5.5
WORLD WAR II				
1939—December 30	40.7	17.2	16.3	7.1
1940—June 30	41.1	17.4	16.6	7.2
1941—June 30	47.6	20.4	20.1	7.2
1942—June 30	53.7	20.3	26.4	7.0
1943—June 30	76.6	17.7	52.5	6.5
1944—June 30	95.7	21.0	68.4	6.3
1945—June 30	114.5	23.7	84.1	6.8
December 31	124.0	26.1	90.6	7.3
1946—June 29	119.4	27.1	84.5	7.8
1947—June 30	112.8	33.7	70.5	8.5

Mr. ECCLES. You will notice here that the total deposits and currency approximately doubled from 1914 to 1922. A small amount of Governments went into the banks, but not a great amount.

Now, here is the picture during World War II, and it is very important.

The opposite of deposits, of course, are loans and investments. Deposits are the liability side, and the loans and investments of a bank are the assets side. Money is created by the banks—I mean deposits and currency are the result of bank credit. Whether that credit by the banks is to the Government or is to individuals, in either case that is where the money comes from. The reserves of the bank-

ing system, upon which they are able to create credit, comes from the Federal Reserve System. Without the banking system having access to Federal Reserve funds, and forgetting for the moment the matter of gold imports, the banks would be unable to expand credit either to the Government or private individuals.

Mr. PATMAN. Can you not carry that a little further and say that the basis of the credit of the Federal Reserve System is the United States Government?

Mr. ECCLES. Well, it is true that we are an instrumentality of the Government, given a certain authority, and it is the Government that provides that authority to the Federal Reserve System.

But it is very important to keep in mind that all money comes from bank credit, or from gold, that may be mined or imported, or from silver for which silver certificates are issued. The greatest source of our money supply is bank credit. In actual practice, currency is something that someone has drawn out of a checking account, and the checking deposit resulted from expansion of bank credit. So, you see, the bank credits is the heart of our money supply.

The war created a terrific volume of money, because the banks financed a large part of what the Government had to spend to win the war. In that process, they created the money, through the Federal Reserve System, providing them with ready access to Federal funds. After they created that money, that money, of course, went into the hands of individuals and corporations and is now owned by the public and the offset which the banks had to that money, when the war ended, and still have, is a very large amount of Government securities.

Here you will notice, on this chart, the total loans and investments. This reduction, in 1946, was due to a balance, in the latter part of 1945, which the Treasury had. They had 24 or 25 billion dollars balance in what was known as the war loan account, and the banks held a lot of Governments offsetting those balances. Those idle funds of the Treasury had never gone into the spending stream, had never added to the inflationary pressures because they were held idle by the Treasury, and as the Treasury gradually paid off maturing obligations during 1946 and early 1947, the total loans and investments of the banks went down. But you will notice here they went down entirely in Government bonds. That is what happened to your Government bonds.

But loans have continued to go up. There has been no change in the trend, since about 1943, and the loans in that period have almost doubled and are continuing to go up. So that in the process of the banks making those loans, they were creating money. In the process of the banks buying Government securities, they were creating money, so that the result of the two is this.

So the total loans and investments of the banks from the bottom in 1942, the growth has been in their increased holdings of Government securities which created money.

Mr. SMITH. So that your bank credit, then, is about about the same in amount——

Mr. ECCLES. I will get to that, Dr. Smith.

Mr. SMITH. Just this particular point: It is about the same at the present time as it was in 1929 or 1930? That is approximately correct, is it not?

Mr. ECCLES. The loans of the banks, without counting any investments, are just about what they were in 1929, approximately, when there was practically no Government credit in the picture.

Other securities held by the banks, other than United States obligations, have likewise gone up about $1,600,000,000 since the beginning of 1946, and more than a billion dollars of that increase occurred in the past 12 months. During the last few months it has been going up at the rate of about a hundred million dollars a month. The banks are pretty heavy buyers of local municipals, because the rates are very substantial and entirely tax-free.

You get the idea, then, of the asset structure of the banks, and you can see that the governments are the principal agency for creating this large volume of money and credit.

Now, here is the opposite side of those investments.

This chart, you see, shows the total demand deposits and currency. The red line is exclusive of the Government deposits. We take those out because they fluctuate as widely as I have told you about. They are now down to the basis of about a billion dollars working balance. During the war they went up and down with the war drives. So the figure to consider is this figure, which shows that about 1939 the deposits and currency started to expand, and this chart shows what happened to them.

In other words, they have gone up to more than 250 percent of the earlier figure. It is important that we keep that in mind, because our physical production of goods and services has actually increased to only about 150 or 175 percent of the prewar figure—food has increased about a third over what it was in 1940, and certain other commodities, of course, have gone up 100 percent, 150 percent, and others 50 or 75 percent, and so forth—but the net result is, as to the entire increase in our production of physical goods and services, that it is less than 200 percent of prewar, while our supply of money has increased to more than 250 percent, and is still going up.

Mr. KUNKEL. Are you using physical volume of goods as distinguished from dollar value, Mr. Eccles?

Mr. ECCLES. That is right. But even on dollar volume, the total dollar volume—what we speak of as the gross national product—I think this year it may run $230,000,000,000. Last year the entire national product was around $205,000,000,000.

That, of course, is the value of the national product at inflated prices and it still is away short of the supply of money available.

So that, without any further expansion in the means of payment we can still have a substantial further inflationary development based purely upon the supply of money.

Mr. KUNKEL. Mr. Eccles, is the national product figure the measure of the value of the product? As I understood it, it was the total of the national income plus corporate earnings and a number of things like that. It would not necessarily be the gross value in dollars of the national product?

Mr. ECCLES. It is the gross value in dollars of all goods and services.

Mr. KUNKEL. Goods and services?

Mr. ECCLES. Yes. It is the gross value of the entire goods and services produced during the year.

Mr. KUNKEL. It is not the dollar value of the physical assets, though.

Mr. ECCLES. Well, you do not figure that, because, after all, a rail-

road is a service; a telephone operation is a service; your retail merchant is a service; wholesaling is a service. A large portion of our economy is not a question of actual production of physical goods, but the transporting of them. So you must take into account not only the value of the physical product, but you have to take into account all that goes with it, and the figure of the total national product is comparable to other figures.

Mr. KUNKEL. Well, it contains corporate net earnings, does it not?

Mr. ECCLES. Yes; and individual earnings. The way you get at it is to consider all earnings.

Now, you have a picture of the source of money, and the relationship of loans and investments to its creation, and particularly the importance which the purchase of Government securities by the bankers has had on the banking system. And you can see that the supply of money today is more than adequate to take care of the present total national product at the present price level.

That is speaking in general terms.

The further expansion of bank credit will add to this supply of money to the extent, however, that it is not offset by budgetary surpluses which can be used to pay off the public debt held by the banking system.

In other words, to reverse the wartime process of creating deposits through the acquisition of increased Government securities.

The budgetary surplus has this effect upon the banking system.

There are three sources for the creation of banking deposits. One is gold imports which add to the deposits of the banking system and likewise add to the surplus excess reserves of the banking system and put the banks under pressure to use those reserves. Another is the reserves which the Federal Reserve System would give to the banks when they buy securities which are held by other than banks. In other words, in the support of the long-term Government security market, in the purchase of the nonbank eligible securities, or the purchase of securities that may be eligible to banks but are held outside of the banks—as the Federal Reserve buys them, the seller of those securities—and, by the way, the Federal Reserve is the residual market for the Government securities—puts deposits in the bank, by the selling of the securities, and on the opposite side it puts excess reserves in the banking system.

Then, another source for the creation of deposits is loans and investments which the banks make.

The budgetary surplus, to the extent to which it is equal to gold imports, the Federal Reserve purchase of Government securities purchased from nonbanking investors, and to the extent that it further equals the amount of bank-credit expansion, would neutralize the inflationary effect of those three items.

Now, it is desirable, therefore, if we are going to avoid a further increase in our supply of money, to try to stop further over-all expansion in bank credit. We cannot stop gold imports, and we cannot stop the sale of Government securities by nonbank investors, and the purchase of those securities by the Federal Reserve System, so long as we support this present pattern of long-term interest rates.

You can see, therefore, the great importance of maintaining budgetary surpluses, and you can likewise see the great importance of restraining further bank-credit expansion on balance.

The banks today have immediate and ready access to all of the Federal funds they want. As I said a moment ago, they are getting reserves from gold imports and getting reserves from the Federal Reserve support of the long-term market, and they are under no pressure not to use those reserves in the lending field.

With the special reserve proposal, the banks came into possession of excess reserves from gold imports and from the Federal Reserve's support of the long-term market, but as they came into possession of reserves from those sources, it would be our plan, instead of making loans, or being at least under a feeling of pressure, with easy money to make loans, they would be purchasing short-term governments—bills, and certificates, and so forth—from the Federal Reserve System, and that would thus sterilize the effect of gold imports, and would also sterilize the effect of the Federal Reserve support to the long-term market. If we bought the long-term governments to support the market, and the banks bought the short-term governments, the two effects would neutralize each other.

Now, without a possible requirement here of holding their reserves in short-term securities, there is every reason to expect that they might use those reserves for further expansion of loans and other investments. So that, aside from the ability of the banks to expand credit to a very great extent, even without selling the Federal Reserve some of its Government securities to get Federal funds, but merely by using the reserves that they will get out of gold imports and that they will get if the Federal Reserve has to continue to support the long-term market—even from that source alone, there can be, I would say, anywhere from 15 to 20 or 25 billion dollars of credit expanded within the next 12 months without selling us any Government securities.

Mr. KUNKEL. Mr. Eccles, could you explain at this point how that credit expansion is six times? I understand that is the figure, and I do not have it too clear in my mind.

Mr. ECCLES. That is right. That is pretty difficult to explain, but I will say——

Mr. KUNKEL. Could you put a memorandum in the record on it?

Mr. ECCLES. Well, we will try to spell it out and show you how it affects the banking system. It is a question of figures. All I can say is that when a bank makes a loan, if it does not have any idle money, it sells the Federal Reserve, say, a million dollars' worth of Government securities. It gets those funds.

It then loans that money to a customer. That customer does not leave that money in the bank. That customer spends the money. And that money becomes a deposit in another bank. Therefore, that bank has idle money, and it makes a loan, because it has idle money. It goes then to another bank.

The reason it does not go on more than about six times is because against every deposit there is a 20-percent reserve requirement, 14 to 20 percent. That is why you get about 6 to 1 as a minimum, because we have some banks which are not members of the Federal Reserve System, and therefore the 5 to 1 does not apply. It would be about 5 to 1 if it were not for your nonmember banks.

Mr. TALLE. That is something that is true for the whole, but not for the individual banks?

Mr. ECCLES. That is true for the system as a whole; that is right.

(The information requested by Mr. Kunkel is as follows:)

BANK RESERVES, BANK CREDIT, AND DEPOSIT EXPANSION

Banks which are members of the Federal Reserve System are required at the present time to keep as reserves on deposit at the Reserve banks the following percentages of deposits:

Time deposits, all member banks	6
Demand deposits:	
Reserve and central reserve city banks	20
Country member banks	14

On an average these percentages work out for all member banks at about 15 percent. Banks that are not members of the Federal Reserve System are subject to reserve requirements that vary from State to State.

When a member bank receives a deposit of $100, in currency or in the form of a check on another bank, it must, therefore, deposit on an average $15 with a Reserve bank as required reserves. It is free to lend or invest the remaining $85. In practice the bank will keep a little more than the $15 because it will need cash to meet the demands of depositors without delay. But since currency can always be obtained promptly from the Reserve bank, the amount kept in bank tills is relatively insignificant.

If there were only one large commercial bank in the country and all of the people kept their deposits at this bank, the process by which deposits could be expanded on the basis of new reserves would be a simple one. Let us assume that a depositor of the bank was paid $100 in gold for a sale to a foreign buyer and that these funds were placed on deposit at the bank. The bank would obtain for the gold a deposit of $100 at the Federal Reserve Bank, thereby increasing its reserves, by that amount. The bank can, on the basis of this increase in its reserves, make loans or investiments, and accordingly increase its deposits (create new deposits by crediting the accounts of borrowers) by an additional $566, assuming it is required to hold reserves equal to 15 percent of deposits. At this point its new reserves of $100 would be just equal to 15 percent of the new deposits of $666. Because it is the only bank, it would hold all deposits and sustain no drain of funds as the newly created deposits were used by their holders. Checks drawn on the bank by one depositor would be redeposited by the recipients, and the only effect would be a transfer of ownership of the deposits on the books of the bank.

The process of reserve operation and deposit expansion in the simplified situation in which one bank does all the banking business may now be transferred to the more complex situation in which thousands of banks make loans and investments and hold deposits.

It has been seen that our consolidated bank can expand its loans and investments by as much as $566 and may hold a total of $666 in new deposits if $100 is added to its reserves through a deposit of gold. (The situation is similar when new reserve funds are otherwise obtained.) But where there are many banks, no individual bank can behave as would the consolidated bank because borrowers may wish to take the money out of the lending bank. In fact, a borrower is more likely than not to use the deposit created by his loan to write checks to pay various people. He has borrowed the money presumably for the purpose of making payments; he would not ordinarily undertake to pay interest on a bank loan for the purpose of carrying an unused deposit. Consequently, a bank does not lend more than it has in free funds; if it did, it would not be able to honor its depositors' checks. How, then, can the banking system lend over six times as much as it obtains if each individual bank of which the banking system is composed cannot lend any more than it receives? Is this not a paradox?

What appears to be a paradox is really a simple and understandable matter. The bank at which the original $100, say in gold, was deposited would need to hold $15 in reserves at the Reserve bank against the new deposit. The remainder—$85—it could lend. This money might be paid out at once by the borrower and deposited by the recipients at another bank. The second bank would need to hold $12.75 as reserves against the new deposit and could lend the remainder of $72.25. Similarly, the borrower here might draw upon the newly created deposits at once, but the deposits would merely be shifted to a third bank which could, in turn, lend 85 percent of the funds, thereby creating an additional deposit of $61.41. This sequence would trace through many banks until on the basis of the original $100 deposit of gold, $666 of deposits would show up on bank books. On the asset side of their books, the banks

would hold $100 in reserves (15 percent of $666) and $566 in loan or investment paper. The table shows how the deposit balances would be built up as the funds were diffused throughout the banking system.

This analysis shows how the banking system creates money. It is sometimes maintained that, since the banking system can lend several times as much as it obtains in reserves, it creates money by a stroke of the pen. In the light of the preceding description it is clear that this statement is not correct in relation to any single bank. An individual bank can lend only such money as it acquires from its stockholders, its depositors, or the Federal Reserve. In the meantime the money, after it leaves the hands of the first bank, continues to do business as it passes from bank to bank or from person to person.

While in the practical workings of the banking system as a whole the bulk of deposits originates in the granting of loans or the purchase of investments by banks, each individual banker knows from day to day experience that deposits are brought to him by his customers, and his ability to make loans and investments arises largely from the receipt of his depositors' money. This is another apparent banking paradox which causes much confusion. The fact is that deposits originating in loans and investments move from one bank to another in the course of business and seldom stay with the bank of origin. The series of transactions is as follows: When a banker makes a loan he credits the amount to the borrower's deposit account; the depositor writes checks against it in favor of various people who deposit them at their banks. Thus the lending banker is likely to retain or receive only a small portion of the deposits he creates, while a portion of the deposits created by other banks is brought to him by his customers. Hence both statements are generally speaking true; taking the banking system as a whole the bankers originate deposits by making loans and investments, but each individual banker's ability to lend or invest arises largely from deposits brought to him by his customers.

The multiplying capacity of money in bank transactions

Bank	Amount deposited	Amount lent	Amount set aside as reserves on deposit at Reserve banks
1	$100.00	$85.00	$15.00
2	85.00	72.25	12.75
3	72.25	61.41	10.84
4	61.41	52.20	9.21
5	52.20	44.37	7.83
6	44.37	37.71	6.66
7	37.71	32.05	5.66
8	32.05	27.24	4.81
9	27.24	23.15	4.09
10	23.15	19.68	3.47
11	19.68	16.73	2.95
12	16.73	14.22	2.51
13	14.22	12.09	2.13
14	12.09	10.28	1.81
15	10.28	8.74	1.54
16	8.74	7.43	1.31
17	7.43	6.32	1.11
18	6.32	5.37	.95
19	5.37	4.56	.81
20	4.56	3.88	.68
Total for 20	640.80	544.68	95.12
Additional banks	25.86	21.98	4.88
Grand total	666.66	566.66	100.00

Mr. STRATTON. Mr. Eccles, is it not true that your rate of expansion of credit was less, say, in the last 20 years than it was in the previous 10 years? Is there not a natural trend for increase of credit, as population and goods and services increase?

Mr. ECCLES. Well, if you do not take the credit created by the Government, certainly, the credit would not be considered excessive, and

the supply of money would not be excessive if it were not for the fact that the Government's deficit financing during the war period created such a large volume of money that the need of further bank-credit expansion was certainly unnecessary, or at least less necessary.

Mr. STRATTON. The point I am making is that the validity of your figures is not exactly correct unless you weigh it with that gradual increase which is normal.

Mr. ECCLES. I think where your weighting comes in is in the total supply of money in relation to the total supply of goods and services. That is the only weighting you have to consider. Because, after all, if your total supply of money is up 300 percent, and your total supply of goods and services is only up 200 percent, or 150 percent, then, certainly, you have the pressure of the money supply against the price level, and that is exactly what you have here.

If that money supply gets out of the hands of the people who would spend it, to a great enough extent, you might still have a very large money supply and still not have full production, because the demand would not be made effective unless people have money or credit. That is just why consumer credit todav helps to add to an effective demand which is already great. That is why easy mortgage credit is adding to the further effective demand, which is already in excess of the supply.

There is just one other point I want to make before I leave this: I said that without the banks selling Government securities to the Federal Reserve System to get Federal funds, they would have large excess reserves coming to them from two sources, aside from their selling to the Federal Reserve—gold imports and the Federal Reserve purchase of non-bank-held Government securities.

The offset of those two, however, would be the budgetary surplus which would be used to retire bank-held debt. That is why a large budgetary surplus is desirable as an offset.

Aside, however, from that source of excess funds, the banks, at will, can sell to the Federal Reserve Government securities which they hold, and they represent approximately $70,000,000,000, or fully one-half of all of the assets that the banks have. With the $70,000,000,000 of Government securities which the banks have, they have immediate access to Federal funds by selling them to us, and we must buy them or fail to support the Government market.

The banks, in effect, could sell us $10,000,000,000 of the $70,000,000,000, and have $60,000,000,000 left, and upon that $10,000,000,000 which they sold us, having $60,000,000,000 left, they could get enough reserves to expand to the extent of $60,000,000,000 of credit, which is 50 percent more than the entire loans and investments which they now have.

People say that we are asking for increased power. We are not asking for any increased power. We are merely pointing out to you that, so long as we support the Government market and take care of public financing, that the power that we did have—and which today, in view of the size of the public-debt fiscal situation, is not effective—the power we did have was to refuse to make reserve funds available to banks. You would not need to make loans or investments to them. If a bank was expanding credit, and we felt it should not, we would deny it the use of Federal funds, and that would stop it. We could raise discount

rates to a penalty rate. That is a power that was greater than the power we are asking for here, so that we are not getting an increase in power. Even with the power we are asking, it would be less than the power we had.

The CHAIRMAN. Why do you say that that "was the power," do you not still have it?

Mr. ECCLES. It is a power that we have if——

The CHAIRMAN. You have?

Mr. ECCLES. Yes; if we want to use it. But, as this report will point out to you, it is certainly a power which, without more instructions than we have, we do not think we would use, we would not recommend using it, and if the committee would like me to discuss more fully why we should not let interest rates go and withdraw from the support of the Government market, I shall be glad to do that.

But I do not think that even the bankers—at least the great majority of them—would advocate them. Certainly none of the people connected with the Reserve banks would advocate that, and I think that certainly, if Congress understood it, they would not advocate it. However, if this committee and the Banking and Currency Committee of the Senate felt that that was the thing to do, we should like an indication that they would feel that we should use these powers, and let the interest rate go, and not provide Federal funds to the banks by supporting the Government market.

The CHAIRMAN. Do you mean, Mr. Eccles, by that, that unless we reaffirm the legislation and authority which you now have to manipulate the discount rates that you do not plan on rating the discount rates?

Mr. ECCLES. Yes; that is exactly what we would mean.

Mr. MONRONEY. Was not the import of what you said, though, that it would do no good to push up the discount rates because the banks are not turning commercial paper over to you for borrowing?

Mr. ECCLES. There would be no point in raising discount rates if the banks can sell us Government securities. If you raise the discount rate higher than the short-term Government rate, all the bank would do would be to sell us short-term Governments.

The CHAIRMAN. Are you planning to take this matter up with the Open Market Committee?

Mr. ECCLES. It has been up. We have had it up before. There is nobody in the Open Market Committee who would advise it. Everybody on the Committee would strongly recommend the policy we are pursuing, which is strictly an Open Market Committee program.

The CHAIRMAN. We must recess in order to be on the floor. But that is something that worries me about it, and I wish we would all give some further thought to it.

Mr. Eccles will be back with us on Thursday, but I wish the committee members would think over, in the meantime, whether we should commit ourselves to the continuance of a cheap money policy in order to carry the national debt.

Mr. ECCLES. That is very important, and if Congress has any other idea, why, they certainly should indicate it, and I should like very much to point out why the Federal Reserve Board and the Open Market Committee unanimously recommend that you should continue that policy.

The CHAIRMAN. What we are trying to find here, I think, is the alternative to continuing indefinitely a "cheap money" policy, which results in inflation, in order to carry the national debt.

Mr. ECCLES. That is right. You must remember that the national debt is three-fifths of the total debt.

The CHAIRMAN. The point is whenever are we going to be able to bring prices down if we have to maintain an appreciated dollar in order to take care of the national debt.

Mr. ECCLES. Well, I do not think that necessarily does it. I do not think that the "cheap money" policy, in and of itself, is the thing which creates the inflation. As I pointed out before, a rise in interest rates did not deter the boom of the twenties, and the high interest rate structure only made the deflation that much more severe.

The CHAIRMAN. You have said that your secondary reserve should be used only to supplement or implement the other fiscal policies and practices which have caused inflation and are maintaining it.

Mr. ECCLES. That is right.

The CHAIRMAN. Can you put, for the benefit of our thinking in the meantime, in one, two, three order what those are?

Mr. ECCLES. I did. I put it in the record while you were out. I put a five-point program in the record, and this is No. 4 on the program.

The CHAIRMAN. Very well. I am afraid we will have to adjourn now.

Mr. ECCLES. If I could just have 1 minute, I will finish with these charts and then I can take them back.

The CHAIRMAN. By the way, Mr. Eccles, have you those charts in such shape that we can put them in the record?

Mr. ECCLES. We can photograph them and give them any size you want.

The CHAIRMAN. Without objection, they will be placed in the record. Can you make enough of those available to the committee so that each member of the committee may have one?

Mr. ECCLES. Yes.

Mr. KUNKEL. There is only one of the three in the present statement.

Mr. ECCLES. You will notice that agricultural loans are about level. You will notice that consumer credit—this is merely the banks' expansion of consumer credit.

Here is your real-estate credit. Of course, this is merely bank expansion, so you see that in spite of the money that was created during the war, which was very inflationary, even without further bank credit expansion for other purposes, and we had to maintain a whole harness of controls to keep it from flowing over, and we took that harness off before we got production up to supply and put nothing in their place—so the net result is that you have this rapid growth of these other sources of credit.

There is a feeling that we would restrict production, they say, if you curbed credit. Ultimately that may be true, but the first thing you do in an inflation, if you curb credit, is to curb demand. What we need today is to restrict credit so as to curb demand, and so that the demand gets closer in balance with supply.

The easy housing credit is not creating more houses. What it is really doing is to inflat the price of houses 25 percent, for instance, in the last year. The limitation is labor and materials.

The CHAIRMAN. Just a minute. Do we understand you to say that the ease with which a proposed home owner can get a loan for a house has no influence on the price of that house?

Mr. ECCLES. It has an influence. It is inflating the price of the home. That is my point.

The CHAIRMAN. And the ease with which he increases the credit, also increases the demand?

Mr. ECCLES. It increases the demand. And the demand increases the supply, and therefore prices go up.

The CHAIRMAN. Is that not natural of everything?

Mr. ECCLES. That is true of everything. Therefore, when these people say you should not restrict credit because it will affect production, I say it first affects demand, before it affects production.

The CHAIRMAN. Think this over. How does it differ in other fields? If that same rule applies to housing, why does it not apply to all other fields? Why can we not, with the exception of this bond market idea, why could we not slow up demand by making money and credit less available?

Mr. ECCLES. That is just it, we could. That is just the point. That is just what is proposed. That is what this plan of ours does. This plan would be a restatement——

The CHAIRMAN. The only reason you do not follow the orthodox method of increasing interest rates and reserve requirements is because of the effect it would have on the market; is that right?

Mr. ECCLES. No, it is not the effect it would have on the market. We would not hesitate to raise interest rates at all, so far as the market is concerned.

The CHAIRMAN. You mean the Government loans?

Mr. ECCLES. Yes. It would not do any good because the banks are not borrowing. No bank is going to borrow from the Federal Reserve, and they are not borrowing now. We could increase the interest rates all we wanted, but the banks would still sell their Governments to the Federals and get reserve.

The CHAIRMAN. Do you not have some control over that through the provisions which you wrote into the Banking Act of 1938 with respect to open market operation?

Mr. ECCLES. We have no control except if we refused to buy and if we refused to buy Governments, you do not know then where the market would go.

The CHAIRMAN. Mr. Kunkel.

Mr. KUNKEL. Why do you not raise the reserve requirements the 6 percent which you now have the authority to do?

Mr. ECCLES. In New York and Chicago?

Mr. KUNKEL. Yes.

Mr. ECCLES. I am glad you asked that. In the first place, it would have little or no effect. To raise those reserve requirements would merely cause the New York and Chicago banks to sell $1,200,000,000 of their holdings to the Federal Reserve. It would transfer the earnings on $1,200,000,000 of those holdings from them to us. To that extent it would reduce the amount of Government securities which they have available to dispose of, to make further loans, and it would have

some slight restriction. But the New York banks, however, and the Chicago banks, are expanding much less credit in relation to their size than the other banks of the country, and all that does, it deals with the banks on two particular points: the earnings of the New York banks are less than those anywhere else in the United States—and that is not a deterrent, and we expect certainly to do that when the present program—if this situation continues—when the present program of retiring public debt, over the next 3 months, has been carried out.

The entire budgetary surplus, for a year, comes in in about the first 3 months of the year, and it is due to the fact that the large tax collections for the year come in during the first quarter. Therefore, we expect to have a surplus of 7 or 8 or 9 billion dollars, as a result of the taxes on December 15, and the taxes on March 15, and that will bring money out of the market—that will be a pressure on the deposits—and to the extent that that money is used as it will be used, I expect—we certainly would recommend to the Treasury that it be so used—to pay off Federal Reserve bank-held debt, that, of course, will put, as I said, pressure on the banks, as I stated in this memorandum, and when that period is over, then, so far as fiscal policy is concerned, the banks will no longer be under pressure. When that pressure is over, no doubt, we would increase reserve requirements, and at least keep the New York and Chicago banks under pressure further. But, as I say, that is a very minor thing, and that only deals with those banks, and it is something we have in mind, and certainly we would expect to use it at the appropriate time.

The CHAIRMAN. The reason why the banks might sell their Governments, if you raise the rediscount rates—I do not quite get the connection there. Would it be to get the cash with which to make commercial loans?

Mr. ECCLES. Yes.

The CHAIRMAN. The thing that would control that would be the demand on the banks for commercial loans?

Mr. ECCLES. That is right.

The CHAIRMAN. By raising your rediscount rates, you lessen that.

Mr. ECCLES. Not only commercial, but all sorts of loans.

The CHAIRMAN. It is a kind of a round robin, perhaps. It seems to me that if you raise your discount rate, you are raising it for the purpose of reducing the demand for banking credit. Therefore, you remove much of the demand from the banks to sell their Government to get the cash with which to make the loans.

Mr. ECCLES. I know, but to raise the discount rate does not in any way reduce the demand by the borrower for credit. The borrower is not deterred by our raising the discount rate.

The CHAIRMAN. Wait a minute. That is perhaps why we are not together.

Mr. ECCLES. The borrower is not deterred by the raising of the discount rate, because the banker does not pay the discount rate.

The CHAIRMAN. Eventually the borrower has to pay it, does he not?

Mr. ECCLES. No; if the bank has 1 percent Government securities, and the bank can sell that 1 percent Government security and get reserves out of which the banking system can expand six times that amount of credit, the competition for loans is going to be such that you cannot get the rate up for commercial borrowing.

The CHAIRMAN. I know, but is not the trend in the opposite direction?

Mr. ECCLES. That is true, but that is due to the fact that we have let the short-term rate go up from 7/8 to 1/8. It is not due to the discount rate.

The CHAIRMAN. There are a lot of things that do that. What we want to do is to reverse the trend. What can we do?

Mr. ECCLES. We have done all we can do to raise the short-term rate, because we have raised it to the point where we are buying long-term bonds, and to raise the short-term rate serves no purpose——

The CHAIRMAN. Let me understand this. Do you take the attitude that raising the rediscount rate has no effect upon the demand for bank loans?

Mr. ECCLES. That is right, not if you support the short-term Government market. If we withdrew from the Government market, then, raising the discount rate might, but in the past that has had no effect.

The CHAIRMAN. Could we support the Government bond market and at the same time sterilize that part of the short-term Government obligations which you would ordinarily have to buy?

Mr. ECCLES. Yes. Our program here tends to do that.

The CHAIRMAN. Could we not at the same time sterilize new gold?

Mr. ECCLES. That new gold is being sterilized by budgetary surpluses, but, of course, to the extent gold is sterilized by budgetary surpluses, there is that much less of the budgetary surplus to offset the inflation from the bank-held debt. It cannot be used for both.

The CHAIRMAN. Well, if we sterilize the new gold, and we sterilize the purchases by the Federal Reserve of short-terms which are now being held by the bank in consequence of raising rediscount rates, you effectuate your power with respect to the rediscount rates.

Mr. ECCLES. In other words, if we had this requirement, we could raise the short-term interest rates, because if you had the reserve requirement here——

The CHAIRMAN. Wait a minute. I am trying to get practical. The Treasury is opposed to your program. The Federal Reserve Advisory Council is opposed to your program. Many of the bankers are opposed to the program.

Mr. ECCLES. That is right.

The CHAIRMAN. We do not find anybody sustaining the program but the Federal Reserve Board.

Mr. ECCLES. That is correct.

The CHAIRMAN. Well, now, you know, as a matter of practical legislation, that in the situation we are in, we are not going to pass legislation here creating a secondary reserve against the advice of the Secretary of the Treasury, who would counsel the President as to whether he should sign or veto the bill. We want to try to get a program which the President will sign which will start this trend the other way—level it off and start it the other way, and do it with as little shock to our economy as possible.

Mr. ECCLES. The responsibility of the Board, of course, is to recommend to the Congress, when we are called upon—and we are not volunteering this now, the only reason this recommendation comes about at this time is because the President, in his special message to Congress, covering the inflationary problem, had indicated the need of

reimposing consumer credit controls and also the need of restraining bank credit expansion. Now, we know of no other way of curbing bank credit expansion—other than the special reserves proposal—except through a means of persuasion, or withdrawing from the support of the Government market, or something more drastic than the special reserves proposal.

The CHAIRMAN. In that respect, as I understand it, the bond drive which is expected to be put on——

Mr. ECCLES. We recommend that as No. 5 in the program.

The CHAIRMAN. Is that not siphoning out of the money market some of the influences?

Mr. ECCLES. Yes; but you can siphon that out and banks will pump it right in and nullify it. My point is that the bank credit expansion nullifies the effect of that.

The CHAIRMAN. Are we in a hopeless situation regardless of what we do about it?

Mr. ECCLES. I think you have helped the situation by having a budgetary surplus. What I am saying is that as you get an expansion of bank credit, that creates more money and tends to nullify the deflationary effect of the savings program, and the effect of the budgetary surplus, in paying off bank-held debt. What we want to do, instead of tending to nullify it, is to get something that will supplement it.

The CHAIRMAN. It sort of resolves itself into a question of which is the less harmful, the use of the powers which you now have to curtail or slow up the velocity of credit, reduce the volume of credit, or the influence which that might have on the Government bond market. That is something that the Congress must decide: Whether we should let the rates on Government obligations go up just a little bit, and try to deter the inflation, or maintain the inflationary pressures in order to maintain the Government bond market.

Mr. ECCLES. It is not a question of just letting interest rates go up a little. The point is that you stand ready to buy Governments. The question is at what point do you buy them. If you let your long-term Governments go through par, then, the question is what do you do to your wide confidence in the situation. That is one of the dangers.

But all this program does, Mr. Chairman, is to say to the banks that one-half of these Governments which they have, an amount equal to one-half of them, we want them to hold those as a reserve, or, if they prefer to have cash, they can sell tem to us and get idle reserves. They can maintain idle reserves if they do not want to maintain the Governments.

The CHAIRMAN. But if they got the cash, they would be idle reserves, anyway, unless they had a demand for it.

Mr. ECCLES. That is right, but they would not have cash. What the banks do today, they do not maintain excess reserves. They keep their reserves invested in Governments. What we are saying is that——

The CHAIRMAN. Well, they do not get the cash for them because there is no demand for the cash for commercial loans

Mr. ECCLES. That is right. But it is part of the spiral. We talk about the increase in wages and the increase in prices. Now we have got to go further than that. That is only a part of the inflation. It is an increase in wages, increase in prices, increase in profits, and in-

crease in credit. The credit sustains the whole structure, but the inflation cycle is made up of all four, and not just two.

I would like to read the National City Bank Bulletin's own statement in that regard. They said:

> Rapidly accumulating debt is both a cause and a consequence of the inflationary pressures, for, in a wage-price spiral, business constantly needs more and more money to keep going, and this leads to the incurrence of more and more debt by business and more and more spending by individuals. To check this kind of spiraling, which is to the ultimate benefit of no one and to the injury of all, is not simple.

The proposal that we have here is merely saying to the banks: "One-half of all your assets today are Governments." That is, generally speaking, true. "Offsetting that is a like amount of deposits."

Now, we say: "One-half of that total amount of Governments, approximately, you should be carrying in nonspeculative, short-term Government securities, and the Federal Reserve Open Market Committee should have the right to say to you that you must maintain those as a reserve," just as we might increase the reserve requirements in cash. But that would cause them to sell these Governments to get the cash. We say, instead of locking up the cash, which would cause them to lose money on those Governments, all we would want to do would be to be in a position to require a special reserve in the form of those Governments or in cash. It is their option.

That still leaves them with one-half of their Governments to meet loans and other requirements, but the very fact that their secondary reserve, which are their Governments, has been cut in two would certainly be a restraint upon them.

The very fact that they could, in effect, lock up one-quarter of their deposits and one-quarter of their assets would in itself be a very great restraining influence and would cause them to be extremely selective because they would hesitate to sell their Governments to get money to make loans if the Governments they had available for sale were only one-half of what they now are. That is the basic effect of it.

Mr. SUNDSTROM. Mr. Eccles, how do you arrive at that one-half?

Mr. ECCLES. Well, we figured about 25 percent of the total demand and time deposits, and the banks today carry, on an average, about 25 percent in cash with the Federal and interbank balances. The banks have about 25 percent loans and investments and about 50 percent in Governments—that is, the bank cycle as a whole—so we say that about 25 percent is about half. And outside of the bigger banks, the nonmember banks and most of the smaller banks have enough excess cash and short-term Governments to meet that requirement.

It would be a mild pressure on the banks, and instead of the banks doing what they have been doing, as we know—they say they have made nothing but sound loans—well, that is what they said in the twenties. And in any period of inflation banks only make what they consider are sound and safe loans. They are sound under an inflationary condition, but the question is: What will they be when it is over?

The CHAIRMAN. Mr. Eccles, we have to hurry along.

You read from the National City Bulletin. I wonder if you noted any inconsistency between that statement you have just read and the

statement made by the chairman of the National City Bank, when he said that—

unhappily we should further note that the Federal Reserve and Treasury policy of supporting prices of Government securities pours new money into the money stream about as fast as other fiscal policies remove it.

Mr. ECCLES. That is right; that is correct. But there is nothing else we can do but withdraw from the Government bond market. We recognize that fact. There is nothing inconsistent about it; no.

The CHAIRMAN. Then it comes right back to this question: We have got to maintain inflation.

Mr. ECCLES. You have got to maintain the Government security market, or you will have something worse than inflation.

The CHAIRMAN. We have the only alternative, then, of maintaining the Government bond market as it is and maintaining inflation.

Mr. ECCLES. That is one of them. As a matter of fact, $5,000,000,000 of your budget—more than that—goes to pay interest on the public debt, and that is at an interest rate of 2 percent.

The Government has $100,000,000,000 of maturities in the next 5 years. It has approximately $50,000,000,000 of demand liabilities in the form of E, F, and G bonds. There is $150,000,000,000 of the public debt immediately falling due, or falling due within the next 5 years. And on what basis are you going to refund it if you are not managing the public debt and supporting some interest rate structure? And, if you are, what structure do you support?

The CHAIRMAN. Let me put this question to you: When we were up at the White House, on September 29, the President asked for $485,000,000 for an interim program. When we went back to the White House on October 23 or 24 he asked for $597,000,000, predicating the increase upon the increase in prices in the United States—perhaps not in that particular period, but because of the increase in prices in the United States—which had not been taken into consideration in his previous figures, and the trend of higher prices.

Now we are coming along with a permanent program of rehabilitation and reconstruction running into billions of dollars which it is hoped, by its advocates, will get started by next March 31.

Now our problem is, because of the President's affiliation of the domestic price problem and domestic inflation with the foreign-aid program, what can we do immediately to stabilize so that we will have assurance that the money which we appropriate for the foreign program is going to be sufficient, based on present prices?

In other words, what can we do immediately to stop the inflationary trend so that we will not have to continue to increase any amount which we may appropriate for that purpose to offset the increases in prices?

Mr. ECCLES. Well, I think I stated while you were out what I would recommend as a five-point program dealing with the causes. I said further, however, that we may have to deal, by some direct means, with some of the effects because to deal with the causes, such as through budgetary surpluses and through curbing of further credit expansion, and other similar programs, such as bond-savings program as proposed, takes a little time before it is completely effective, and in the interim certain controls might, and no doubt would be necessary if you are going to get immediate stabilization.

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You have the situation which we know today as the gray market. We know the situation with steel is a very acute one, and that people, in order to get steel, are paying as much as 100 percent over the listed price.

We know that we cannot buy an automobile anywhere. A second-hand car sells for more than a new car.

The CHAIRMAN. What can we do about it?

Mr. ECCLES. I am merely saying that what you have to do is to restrict further credit expansion so as to restrict demand. Consumer credit controls would tend to do that. It is a mild thing and only covers a small field—it isn't over-all. And then some restriction on housing credit would tend to do it.

The CHAIRMAN. Would you be in favor of eliminating title 6?

Mr. ECCLES. I have advocated it. I would eliminate title 6, at least except as it may apply to rental housing. I have a statement which I put into the record as my statement on housing, Mr. Chairman, and it would seem to me that title 6 has fully served its purpose so far as houses for sale are concerned.

It may be desirable, with a different definition of appraisals, to continue title 6 for rental housing to a limited extent.

The CHAIRMAN. Conceding that title 6 is inflationary—that question may come up; that is why I want to ask you about it—but conceding that title 6 is inflationary——

Mr. ECCLES. It is under these conditions.

The CHAIRMAN. Conceding that, do you see any distinction between maintaining that inflationary influence to get the maximum production of houses to meet the demand—do you not see rather an affiliation, there, between that and the easy money policies of the Federal Reserve Board and the Treasury?

How can you say that you are not in favor of continuing this one little inflationary thing if it is going to keep us from getting housing?

Mr. ECCLES. There is a very great distinction. I am not complaining about the low rate on housing—at 4 percent. That is not causing the trouble. It is the 25-year payments and the 100 percent loan value, and sometimes more. It is the lack of equity in the down payment. Therefore, the maintaining of what you speak of as the "cheap money" policies and public financing can still be done, and you can still eliminate the inflationary effect of housing by getting rid of title 6, by changing the veterans' housing program, which is a 100 percent loan, and the demand, as a result of it, of course, so far exceeds the supply that you are not getting more houses but you are getting inflated prices, largely, and you are getting people into debt on a basis on which they cannot get out. And you are not rendering a good service to the veterans or anybody else.

When you help people to buy houses at these prices, and give to the people who are selling or building these houses the unconscionable profits that many are getting, I do not think you are helping the buyer of the houses.

The CHAIRMAN. He apparently has not been convinced of that yet.

Mr. ECCLES. Well, maybe not; but if this breaks, he will be.

The CHAIRMAN. I am sorry we cannot go ahead with this, but they want us to go to the floor immediately. In fact, we have run over our time.

Mr. Eccles will be back with us Thursday. The committee will adjourn.

(The documents referred to by Mr. Eccles in the course of his statement are as follows:)

TABLE 1.—*Illustrative computation of special reserve assets, June 30, 1947*

[Based on aggregate figures in millions of dollars, by groups of banks]

Assets	Member banks				Nonmember insured banks
	Central Reserve city		Reserve city	Country	
	New York	Chicago			
1. Gross demand deposit	22,683	5,037	31,983	27,659	11,891
2. Time deposits	1,459	871	11,269	14,475	6,349
3. Coin and currency	123	36	470	780	395
4. Cash items in process of collection	1,884	349	2,623	834	124
5. Excess of demand balances due from over demand deposits due to other banks in United States [1]				2,546	2,765
Balances with Federal Reserve banks	4,166	973	6,274	4,628	
7. Net cash assets [1] (3+4+5+6)	6,173	1,357	9,367	8,787	3,284
8. Deduct 20 percent of gross demand deposits plus 6 percent of time deposits	4,624	1,060	7,073	6,400	2,759
9. Excess cash assets [1] (7−8)	1,549	298	2,294	2,387	525
10. Treasury bills, certificates, and notes	2,015	606	4,874	5,191	2,932
11. Total special reserve assets [1] (9+10)	3,564	904	7,168	7,578	3,457
12. Special reserve required at given percentages:					
a. 10 percent against demand and 4 percent against time deposits	2,327	539	3,649	3,345	1,443
b. Maximum of 25 percent against demand and 10 percent against time deposits	5,817	1,346	9,123	8,362	3,608
13. Deficiency or excess of special reserve assets: [1]					
a. With 10 percent against demand and 4 percent against time deposits	+1,237	+365	+3,519	+4,234	+2,014
b. With 25 percent against demand and 10 percent against time deposits	−2,253	−443	−1,954	−784	−151
14. Percentage deficiency or excess of special reserve assets to demand deposits:					
a. With 10 percent against demand and 4 percent against time deposits	+5.5	+7.2	+11.0	+15.3	+16.9
b. With 25 percent against demand and 10 percent against time deposits	−9.9	−8.8	−6.1	−2.8	−1.3

[1] Figures shown for these items are computed on the basis of aggregates by groups of banks for the country as a whole; totals of figures computed separately for individual banks or from aggregates by districts would show somewhat different amounts of available cash assets for some of the groups.

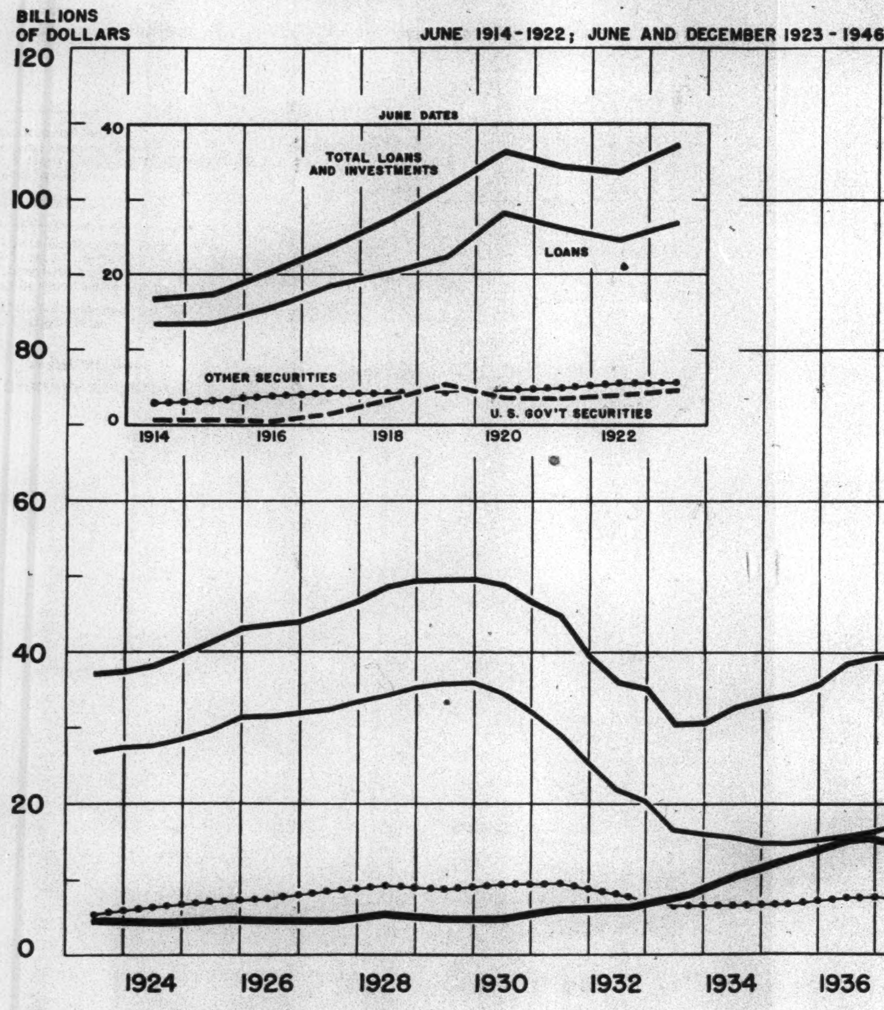
TABLE 2.—*Ratios of available special reserve assets and short-term Treasury bonds to gross demand deposits, all insured commercial banks, June 30, 1947*

	Percentage of gross demand deposits						
				Deficiency or excess of special reserve assets if requirements are		Treasury bonds due or callable [2]	
	Treasury bills, certificates, and notes	Excess cash assets [1]	Total special reserve assets	25 percent of demand and 10 percent of time deposits	10 percent of demand and 4 percent of time deposits	Within 1 year	Within 1 to 5 years
Central Reserve city member banks:							
New York	8.9	6.8	15.7	−9.9	+5.5	5.7	27.8
Chicago	12.0	5.9	17.9	−8.8	+7.2	4.2	23.4
Reserve city member banks:							
Boston	10.3	7.1	17.5	−8.6	+7.1	5.1	18.3
New York	9.3	9.4	18.7	−11.8	+6.5	3.5	31.7
Philadelphia	6.7	8.3	14.9	−11.3	+4.4	1.5	22.6
Cleveland	8.0	6.4	14.4	−14.2	+3.0	7.1	33.7
Richmond	12.9	7.4	20.3	−7.0	+9.4	2.5	32.5
Atlanta	14.4	8.7	23.2	−3.9	+12.3	3.5	20.0
Chicago	20.6	7.1	27.7	−2.7	+15.5	5.9	36.9
St. Louis	10.3	6.3	16.6	−10.2	+5.9	5.1	24.2
Minneapolis	8.8	7.3	16.1	−10.7	+5.4	3.7	28.0
Kansas City	16.8	6.0	22.7	−3.7	+12.2	4.8	19.1
Dallas	13.3	6.1	19.4	−7.1	+8.8	2.2	18.4
San Francisco	22.9	7.6	30.5	−.9	+17.9	6.1	31.3
Total	15.2	7.2	22.4	−6.1	+11.0	4.9	27.8
Country member banks:							
Boston	12.6	6.4	18.9	−11.1	+6.9	5.0	37.3
New York	12.7	9.3	21.9	−11.5	+8.6	4.3	45.7
Philadelphia	18.7	10.1	28.8	−4.4	+15.5	5.0	41.4
Cleveland	17.8	11.1	28.9	−3.5	+15.9	4.8	40.2
Richmond	17.0	8.5	25.5	−3.9	+13.8	4.3	31.8
Atlanta	19.7	5.1	24.8	−3.3	+13.6	3.9	25.0
Chicago	21.6	10.5	32.1	+.6	+19.5	5.9	41.8
St. Louis	21.7	3.8	25.5	−3.2	+14.0	4.0	28.7
Minneapolis	23.8	6.4	30.2	−.3	+18.0	7.3	39.8
Kansas City	26.1	9.6	35.8	+9.3	+25.2	3.2	18.8
Dallas	21.3	11.1	32.4	+6.6	+22.1	2.9	16.7
San Francisco	17.6	7.9	25.5	−4.9	+13.3	6.9	33.9
Total	18.8	8.6	27.4	−2.8	+15.3	4.7	34.3
Nonmember insured commercial banks:							
Boston	19.2	1.2	20.3	−15.8	+5.9	5.6	41.5
New York	15.1	1.7	16.8	−16.2	+3.6	4.5	39.9
Philadelphia	20.9	.3	21.2	−11.1	+8.3	3.8	35.6
Cleveland	22.0	4.8	26.8	−6.3	+13.5	4.6	37.6
Richmond	20.4	.2	20.6	−9.2	+8.7	5.8	29.5
Atlanta	25.2	6.8	32.0	+3.8	+20.7	3.0	22.9
Chicago	29.0	5.9	34.9	+3.1	+22.2	4.6	39.8
St. Louis	25.0	4.7	29.7	+2.7	+18.9	2.2	22.5
Minneapolis	39.6	3.9	43.5	+12.8	+31.2	6.4	32.5
Kansas City	28.0	7.3	35.3	+8.6	+24.6	2.9	20.5
Dallas	16.5	10.4	27.0	+.8	+16.5	.9	18.3
San Francisco	19.6	.6	20.1	−16.6	+5.5	7.7	39.3
Total	24.7	4.4	29.1	−1.3	+16.9	4.2	31.0

[1] Total of (1) balances with Federal Reserve banks, (2) excess of demand balances due from over demand deposits due to banks in United States, (3) coin and currency, and (4) cash items in process of collection, less (5) the sum of 20 percent of demand deposits and 6 percent of time deposits.

[2] These ratios are based on estimated holdings of such Treasury bonds.

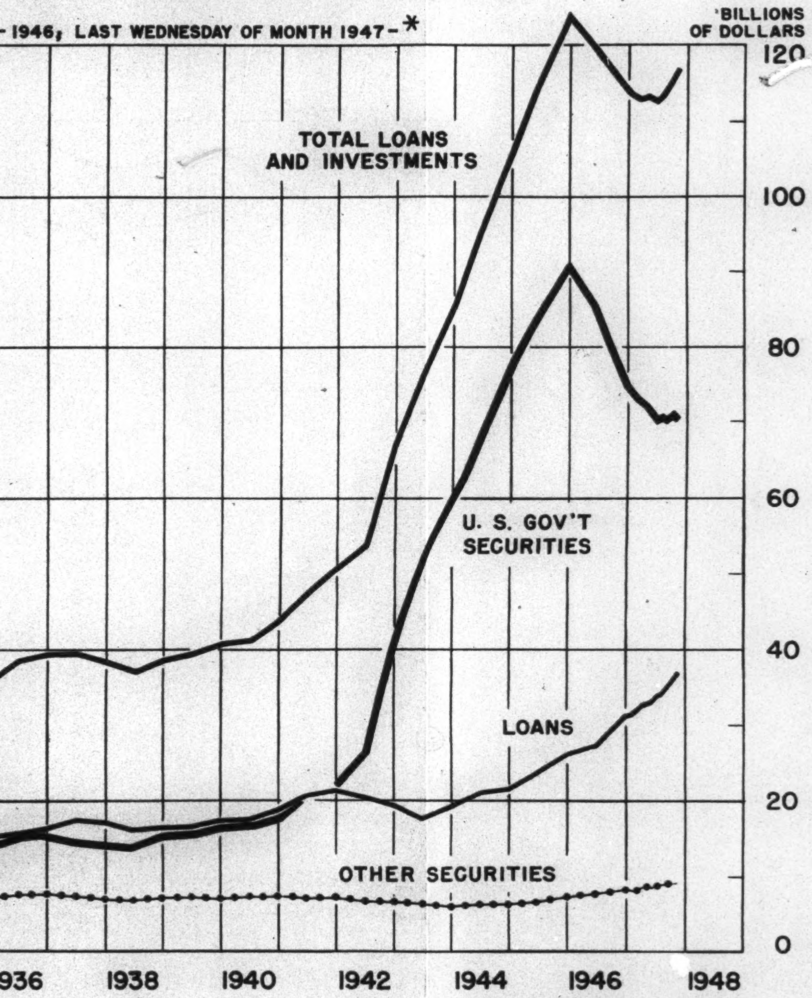
LOANS AND INVESTMENTS OF A



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

F ALL COMMERCIAL BANKS

- 1946; LAST WEDNESDAY OF MONTH 1947- *



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* FEDERAL RESERVE ESTIMATES.

TABLE 3.—*Ownership of marketable U. S. Government securities*

[In millions of dollars as of Sept. 30, 1947]

Investor group	Total [1]	Type of security			
		Bills, certificates, and notes	Treasury bonds maturing or callable		
			Within 1 year	Within 1 to 5 years	After 5 years
Commercial banks	68,892	14,966	5,583	30,300	18,043
Federal Reserve banks	22,329	21,610	177	403	140
U. S. Government agencies and trust funds	4,387	81	50	362	[2] 3,858
Other investors	72,338	11,801	1,502	7,258	[2] 51,647
Total	167,946	48,458	7,312	38,323	73,688

[1] Total includes postal savings and prewar bonds not shown in break-down by issues.

[2] Most of the bonds due or callable after 5 years held by Government agencies and about $45,000,000,000 of those held by other investors are not eligible for purchase by banks. About $7,000,000,000 of these bonds may be acquired by banks.

Data estimated on the basis of the Treasury Survey of Ownership of Securities issued and guaranteed by the United States.

(Whereupon, at 12:45 p. m., the committee adjourned until 10 a. m., Tuesday, December 9, 1947.)

ECONOMIC STABILIZATION AIDS

TUESDAY, DECEMBER 9, 1947

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee reconvened pursuant to adjournment, at 10 a. m.

Present: Messrs. Jesse P. Wolcott (chairman) presiding, Gamble, Smith, Kunkel, Talle, Sundstrom, McMillen, Kilburn, Buffett, Cole, Hull, Scott, Banta, Fletcher, Spence, Brown, Patman, Monroney, Folger, Riley, Buchanan, Boggs, and Multer.

The CHAIRMAN. The committee will come to order.

We have with us this morning Mr. J. M. Mehl, Administrator of the Commodity Exchange Authority.

I believe you have no prepared statement; is that right?

Mr. MEHL. Mr. Chairman, I have no written statement prepared especially for this hearing. I expect to use a statement which I used before the Joint Committee on the Economic Report as a guide.

The CHAIRMAN. That will be perfectly satisfactory. You may proceed as you wish.

Mr. SMITH. Mr. Chairman, could we have this witness' background before he proceeds with his testimony?

The CHAIRMAN. Yes. Will you give us something of your background before you proceed?

STATEMENT OF J. M. MEHL, ADMINISTRATOR, COMMODITY EXCHANGE AUTHORITY, DEPARTMENT OF AGRICULTURE

Mr. MEHL. My name is J. M. Mehl. My present position is Administrator, Comodity Exchange Authority, in the Department of Agriculture.

The Commodity Exchange Authority is a small agency which, under the general direction of the Secretary of Agriculture, is responsible for the administration and enforcement of the Commodity Exchange Act. That is its sole responsibility. It has no other function.

I have been engaged in the work of that agency, or predecessor agencies, since 1924, and I have been in charge of the work since 1940.

Do you care to know anything about my background of education and experience?

Mr. SMITH. What did you do before you came with the Government?

Mr. MEHL. I entered the Government service, Civil Service, in 1917, as an investigator in Cooperative Organization, I believe.

Prior to that time I was, for 8 years, manager of a farmers' cooperative elevator in Iowa. I have had commerce and legal training, and I am a member of the bar, admitted in Iowa in 1916.

Mr. SMITH. That includes all your business experience and other experience.

Mr. MEHL. Well, aside from some accounting and clerical experience, for short periods, with banks and railroads; yes. I would say that my main business experience, insofar as it has any bearing on my present work, would be as a manager of a grain-elevator company.

Mr. SMITH. Cooperative grain elevator company?

Mr. MEHL. Yes.

The CHAIRMAN. All right, Mr. Mehl.

I wish, in your remarks, you would put particular stress upon the voluntary agreement which you have with the managers of the exchange with respect to the 33⅓ percent plan.

Mr. MEHL. Yes, sir.

The CHAIRMAN. How that was arrived at, and so forth.

Mr. MEHL. Yes, sir. My remarks this morning will be confined to this one specific proposal, namely, of giving the Secretary of Agriculture authority to fix margin requirements on speculative transactions in commodity futures, and this would be accomplished by amending the present Commodity Exchange Act.

I will not go into the history of that act except to say that the basic law was passed in 1922, as the Grain Futures Act. It was commonly referred to at that time as the Capper-Tincher Act.

That law was amended in 1936 and was extended to include commodities other than grain. It included cotton, butter and eggs, mill feeds, and most of the domestically produced commodities.

It does not cover such commodities as rubber, hides, sugar, coffee, or cocoa.

The Commodity Exchange Act provides a general regulation over futures trading and speculation in the commodities mentioned. It is directed especially to the purpose of preventing manipulation and corners, outlawing certain abusive trade practices, safeguarding customers' funds, and requiring exchanges to extend members' trading privileges to cooperative associations of producers.

It also authorizes a special commission consisting of the Secretary of Agriculture, the Secretary of Commerce, and the Attorney General to fix limits on the trading and the positions of individual speculators. Those limits are necessarily large, and they affect only the operations of the so-called professional speculators. The limits have been fixed for grains and cotton, and they are relatively large.

For example, the limit is 2,000,000 bushels on grains, except rye, which is a half million bushels; and 30,000 bales on cotton.

These limits, from the practical point of view, cannot be made small enough to affect the general mass of small traders—that is, without unduly restricting the speculative trading that is necessary to provide a hedging market.

Now, we recognize that in the commodity futures market there is need for some speculation. Merchants and processors hedge their inventories by making short sales of futures against those inventories, and holding the short contracts of futures until the cash commodity is sold.

Some of the short contracts of hedgers, of course, are offset by the long hedging contracts of other merchants or processors, whose forward cash sales exceed their inventories. But under most conditions, members of the trade, as a group, are net short in the futures market,

and speculators, by buying offsetting contracts of hedgers, assuming the risk of price change and the merchants and processors thus obtain the equivalent of insurance against price risks, which, in turn, enables them to operate on smaller margins of gross profit or costs.

Also futures price quotations are widely disseminated and are commonly used as a basis for cash transactions, purchases and sales of the actual commodity. And, of course, the futures markets register quickly the changing factors affecting supply and demand.

It is not believed that speculation is a basic factor in determining the general level of prices in the long run. I found that that is one statement which the witnesses for the commodity exchanges who appeared in opposition to this proposal before the Joint Committee on the Economic Report were in very hearty accord. However, after reading some of the statements presented on behalf of the exchanges, I realize that they have slightly different ideas concerning long-term or long-run effect on price.

What I had in mind was this—and I think it is the orthodox view, perhaps, of speculations as an economic factor in price: I believe, for example, that when speculation forces prices up, there results a general interest in rising prices, the general mass of people enter the market, prices go up, and that the natural effect of those prices, if they go high enough, is to conserve supply, and, also, tend to cause farmers to increase acreage and try to produce more of those crops. So that in the end, of course, it carries its own cure. But it is a long-term cure.

You only produce one crop a year of corn, wheat, cotton and those types of commodities. So that is what I have in mind in saying that speculation does not, in the long run, affect prices, or the general level of prices. But I think it is obvious that an undue amount of speculation tends to make price fluctuations more erratic, and that does at times accentuate price trends.

I think we know from experience—take, for instance, the Florida land boom—that speculation in that case tended to accentuate rising prices.

Also it is obvious that when the speculative fever takes hold and everybody believes the prices are going higher and they enter the futures market and buy, that when it reaches its peak, and when the bubble bursts, of course, there is a price adjustment, and usually the pendulum swings the other way. So that in that sense you might say that speculation does not affect the general level of prices, but we know from experience that it can affect prices for periods running over many months.

The CHAIRMAN. Mr. Mehl, at that point can you give us any information as to what part or percentage of the activity on the commodity exchanges is attributed to speculation other than hedging practices?

Mr. MEHL. Well, in terms of purchases and sales normally—and this is just an estimate—I would say that at the present time the amount of speculative trading is perhaps three or four times that of the amount involved in hedging.

At times in the past, when there was a larger volume of trading, and you had surplus crops that were carried in store in the terminal elevators and warehouses from harvest, the volume of trading and also the volume of speculation would naturally be larger.

The CHAIRMAN. How much greater is it now than it was, say, a year ago?

Mr. MEHL. A year ago trading in wheat futures was just beginning to become active following restricted trading during the war. For example, in November of 1946 the volume of trading in wheat futures on the Chicago Board of Trade was only, in round figures, 50,000,000 bushels, whereas in November of 1947 it was 278,000,000 bushels.

The CHAIRMAN. Have you the figures for 6 months ago?

Mr. MEHL. Six months ago?

The CHAIRMAN. Yes.

Mr. MEHL. In November it was 272 million bushels and in June it was 298 million. In October the total volume of trading in wheat in Chicago was 490,000,000 bushels, in round figures.

The CHAIRMAN. That is the month before your last figure?

Mr. MEHL. Yes.

Mr. GAMBLE. What was the November figure again?

Mr. MEHL. In November it was 278,000,000 bushels. October was 489,000,000 bushels, 489,614,000.

Mr. BUCHANAN. What was the peak month this year?

Mr. MEHL. September, with 667 million bushels in Chicago, was the peak month this year.

Mr. KILBURN. How much of that was the Government buying?

Mr. MEHL. Well, the Government did not buy any futures, of course. The Government is buying for cash.

Mr. TALLE. You used as an illustration the Florida land boom. That is not the best illustration for our purposes here, is it, since we are dealing with commodities?

Mr. MEHL. No; it probably is not. I just referred to that because it came to mind as something that nearly everyone, of my age, at least, remembers as being quite typical of a speculative movement.

Mr. TALLE. You could discuss the tulip bulb situation in Holland, too?

Mr. MEHL. That is correct.

Mr. TALLE. But our job deals with commodities.

Mr. MEHL. I would think that would probably be a better example.

The CHAIRMAN. Mr. Mehl, are you prepared to give us any information on the effect which Government buying has had upon speculation?

Mr. MEHL. No, sir; I am authorized to speak for the Department only with respect to information which pertains to the Administration of the Commodity Exchange Act, and this particular proposal to attempt to curb speculation when necessary, by the imposition of high margin requirements. There is no such authority in the present Commodity Exchange Act.

The CHAIRMAN. From your experience, have you any opinion as to whether buying of excessively large amounts would cause speculation, or encourage speculation?

Mr. MEHL. Large amounts of futures or——

The CHAIRMAN. No; large purchases of the Government by the Government. What effect would that have on the speculation in the futures market?

Mr. MEHL. Well, I will give you my layman opinion for whatever it is worth, but I am not familiar with the details of the purchase program. I think it is generally agreed that buying, in times of short supply, for foreign aid, would have an effect on price.

The CHAIRMAN. Would you think that would be true in almost all commodities which were in short supply, if the demand for those commodities increased, then, it would naturally follow that there would be more speculation on the commodity exchange?

Mr. MEHL. Yes. I am not suggesting, and I do not want to be understood as suggesting, that speculation in any of these commodities was responsible for present price levels, because we all know that all commodities are relatively high, and wheat and cotton and others, which are in demand, would naturally feel the effect of those supply and demand conditions.

But the point I am speaking to is some means by which to curb the speculative fever when it asserts itself, particularly in the futures market.

The CHAIRMAN. And you would do that by raising margin requirements?

Mr. MEHL. Yes.

The CHAIRMAN. Could you give us a little history of the agreements leading up to the 33⅓-percent margin?

Mr. MEHL. Yes. You see we get reports from clearing firms and others who are in the grain markets, showing the volume of trading and the open contracts, and we get reports from individual large traders, those who have, say, 200,000 bushels or more in any one future, and they report to us and classify those trades as to whether they are speculative or whether they are hedging trades. And as early as last March we noticed that there were signs of a speculative movement developing, which we thought would affect prices, and at that time we called on the exchanges, the three grain exchanges, and asked them to raise margins to 25 percent of the price.

Well, Minneapolis and Kansas City went along with that proposal, Chicago went along in part. But in May they abandoned it and went back to the old margin, which was about 30 cents a bushel. The rate we suggested would have made it, I think, around 60 cents a bushel.

Then, on September 15 we again noticed definite signs of the public coming into the market, and at that time we suggested—and when I say "We" I mean the Commodity Exchange Authority—we sent a wire to the exchange and suggested that they then raise margins to 33⅓ percent of the market price, in order to curb speculation. They did not accept that. They came to Washington to talk with the Secretary of Agriculture about it and to explain that the real purpose of margins, of course, was to guarantee the account of the customer, to guarantee performance of the contract on the part of the customer. But, on October 6, by direction of the President, the Commodity Exchange Commission—the three cabinet officers that I have previously mentioned—requested the grain exchanges to raise margins to 33⅓ percent, and the exchanges complied with that request.

Mr. SMITH. Let me ask you at that point, under what law does the President, or do you, in your position, ask the exchanges to do anything?

Mr. MEHL. We have no authority under any law. They were asked to do that as a voluntary matter, and to cooperate in curbing what appeared to be a speculative movement developing at that time. I feel it is too late to take action after the damage has been done.

Mr. SMITH. What right have you to ask anything of the commodity exchanges? By virtue of what authority can you do that?

Mr. MEHL. We have no legal right, sir. We just though that it was a wise thing to do. We thought it was in the interest of the exchanges, in the long run.

Mr. SMITH. It is just another matter of meddling, is it not, political meddling in private affairs?

Mr. MEHL. Well, I guess perhaps the exchanges so considered it, but we felt that they should have the benefit of the information which we had, which indicated that a speculative movement was building up, and to suggest some affirmative action on the part of the exchanges. They did not have to act on it, of course.

Mr. SMITH. But it was a sort of sly threat, is that not about the way the thing works? And you are here now asking for the law.

Mr. MEHL. Well, yes; the exchanges might have so interpreted it. That might have been a motivating factor in their cooperation and in going along. But I think that you would find a great many members of the exchanges, who turned down the proposition the first time, were of the same mind we were; that is, that it was a healthy thing to take steps to prevent a speculative movement from developing.

Mr. BROWN. What authority is he asking for now, Dr. Smith?

Mr. SMITH. He is asking for authority to increase the margin, as I understand it.

Mr. MEHL. No.

The CHAIRMAN. I assume that you are here under the second request of the President, to authorize the regulation of speculative trading on the commodity exchanges?

Mr. MEHL. Yes.

The CHAIRMAN. The fact remains that by agreement, the three exchanges consented to go along with the 33⅓-percent margin; is that not so?

Mr. MEHL. Yes, sir.

The CHAIRMAN. If my memory serves me correctly, you testified before the Joint Committee on the Economic Report that if you were given statutory authority, that a 50-percent margin would be the top percentage margin that you would ever have to use; is that correct?

Mr. MEHL. Yes, of course; the Department asked for authority to fix margins up to a hundred percent, but it is my view that, from the way the 33⅓-percent margin is working, if there is assurance that that would be maintained, that it is adequate, and I do not think it would be necessary to go above 50 percent.

The CHAIRMAN. If you were given the authority, the statutory authority, to regulate margin requirements on commodity exchanges as of today, we will say, what margin would you set, as of tomorrow, under that authority?

Mr. MEHL. Well, frankly, the way the 33⅓-percent is working in grains, I think I would leave it right there, at least until you could see that the speculative movement was developing in spite of it.

The CHAIRMAN. Do you think that the 33⅓-percent voluntary agreement is working satisfactorily?

Mr. MEHL. I will say that the 33⅓-percent margin, I feel, is adequate at the present time, under present conditions; yes, sir.

Mr. BROWN. May I ask a question, Mr. Chairman?

The CHAIRMAN. Mr. Brown.

Mr. BROWN. Take cotton, for instance. The manufacturer of cotton sell his goods to be delivered several months afterward. He has to

pay cash for his cotton. He purchases futures to protect himself. He is not able, in many instances, to invest 33⅓ percent of his capital in futures.

Mr. MEHL. Mr. Brown, the 33⅓-percent margin on grains does not apply to hedging transactions, and I do not think that the power would ever be exercised to place it on hedging. It applies only to speculative transactions.

Mr. BROWN. You would not apply it to hedging?

Mr. WEHL. That is right.

Mr. BROWN. Because any good businessman will want to protect himself on the market.

Mr. MEHL. That is correct.

Mr. BROWN. That is why we need the exchanges?

Mr. MEHL. I agree with you a hundred percent.

Mr. BROWN. I just wanted to make that clear.

Mr. GAMBLE. Can you distinguish between those two, the speculator and the hedger?

Mr. MEHL. Yes. In the case of what we call the larger accounts—and they are large only in one sense, say, 200,000 bushels of any one future—they also report to us once a week what their stocks are, and their forward sales and commitments, so we know what their position is in respect to the actual commodities, and from that we are able to judge whether or not their classification of their futures as hedging is correct—within reasonable limits, of course.

Mr. GAMBLE. Could you put a 20-percent margin on the hedger and a 33⅓-percent margin on the speculator? I was just trying to get the distinction between the two.

Mr. MEHL. The exchanges over the years have had different scales of margin applying to hedging transactions and speculative transactions, and I would say that the same principles would hold under this proposal to give the Secretary authority to fix margins. I believe in the case of hedgers, on most exchanges, they take the clearing-house rate, which is the rate which the commission firm has to put up with the clearing house.

Mr. SMITH. Suppose the 33⅓ percent does not do the trick, then your idea is that you would raise the margin, let us say, to 50 percent. Suppose that still does not bring about the results you want, and you raise it to 75 percent. Suppose that is still ineffective, you would raise it to 100 persent. Then, suppose your 100 percent was not effective, then, what would you do?

Mr. MEHL. That is all you could do on margins, but, of course——

Mr. SMITH. Now, just a minute. That is not all you could do. The British showed us that something else could be done. They just wiped the cotton exchange out.

Mr. MEHL. Well, if you raise margins to 100 percent, why, of course, I think that it would have about the same effect on futures. I think the market would become very narrow and very restricted, even for hedging purposes.

Mr. SMITH. So we are on the road to wiping out these exchanges, on the road to wiping them out?

Mr. MEHL. No; I hope not, sir.

Mr. SMITH. You hope not. A lot of the English people hoped too, but their hopes were not borne out very well.

Mr. SPENCE. What effect do the purely speculative practices on the exchange have on the general price level of the commodity?

Mr. MEHL. On the general price level?

Mr. SPENCE. Yes.

Mr. MEHL. Well——

The CHAIRMAN. The general price level of the commodity, did you say, Mr. Spence?

Mr. SPENCE. Of the commodity; yes. In other words, what effect do gambling transactions have upon the general price level of the commodity?

Mr. MEHL. Well, I would say that it has the same effect on price for short periods, and by short periods, I do not mean during the day, I mean over a period of months, it has the same effect as when a bunch of people on a boat suddenly go from one side over to the other, just by mass psychology. At times like that, a lot of people who ordinarily never take any interest in the futures market will go in and take positions. Barbers, butchers, bakers, the whole occupational list, and it cannot help. If it takes on the effect of a speculative move under fever, it cannot help but affect prices. But, as I said at the outset, those situations cure themselves in the long run. They stimulate production, high prices, stimulate production under normal conditions, in the next crop year, and it also tends to make the users of the supply more careful to conserve the commodity, and theoretically, at least, it stretches a short supply.

Mr. SPENCE. Is there any way to segregate on the exchange the speculation and purchases for legitimate uses?

Mr. MEHL. Yes; it is very easy, when you examine the books of any concern, to determine whether or not they are speculating or whether they are hedging.

Mr. SPENCE. Does the speculative purchase have as great an effect on the general price level as the legitimate purchase?

Mr. MEHL. I do not think there is any difference at the time, because usually the broker who executes the order does not know whether it is for speculative account or for trade account or for hedging account.

Mr. SPENCE. What is the percentage of speculating practices and other practices on the exchanges? What would you say as to the percentages?

Mr. MEHL. At the present time I would say that in wheat, on the Chicago Board of Trade, just as an example, hedging runs probably 3 or 4 million a day, and the total trading averages around 14 to 15 million bushels. I would say there is three or four times the amount of speculative trading that there is hedging, and I think that that is necessary to provide a fluid market. We have no objection to that. We do not want to do anything to disturb the market as a hedging function. We think that it serves a very useful purpose in the present marketing system.

Mr. SPENCE. How much would the increase in margins which you advocate reduce the speculative trading?

Mr. MEHL. I did not quite get that.

Mr. SPENCE. If you were permitted to increase the margins, how much would that reduce the speculative trading?

Mr. MEHL. The 33⅓-percent margin went into effect on October 7. In the 30-day period—in the 30 trading days preceding October 7—the average daily volume of trading in wheat futures on the Chicago

Board of Trade was about 29,000,000 bushels—28,000,000 to 29,000,000 bushels.

In the 30 days following October 6, when the margins were increased, the daily volume of trading dropped to around 14,000,000 bushels. I think it is about 44.7 percent less during the period following the increase in margin, which shows that the raising of margins did have an effect in curbing speculation.

Mr. SPENCE. What was the answer of the exchanges to the request to increase margins?

Mr. MEHL. When the President requested the Commission to ask the exchanges for a $33\frac{1}{3}$-percent margin, they reluctantly accepted. When I had asked them to increase margins to $33\frac{1}{3}$ percent in September, the month before, they rejected the proposal.

I wonder if you would like to have for the record a brief statement which shows the percent of price that is required in the way of margin on different commodities on different exchanges.

The CHAIRMAN. Yes; I think it would be very interesting and very helpful to the committee.

Without objection, it will be placed in the record.

(The information referred to is as follows:)

Minimum initial margins on speculative futures transactions in specified commodities

Commodity	Percentages of closing prices of nearby futures, Nov. 18, 1947	Traded on—
Bran	16.8	
Butter	10.9	Chicago Mercantile Exchange.
	8.5	New York Mercantile Exchange.
Cocoa	9.5	
Coffee	3.4	
Cotton	[1] 19.4	New York Cotton Exchange.
	[1] 13.9	New Orleans Cotton Exchange.
	[1] 11.8	Chicago Board of Trade.
Cottonseed meal	5.5	
Cottonseed oil	6.9	New York Produce Exchange.
	4.7	New Orleans Cotton Exchange.
Eggs	11.7	Chicago Mercantile Exchange.
	6.8	New York Mercantile Exchange.
Grains	33.3	
Hides	14.0	
Lard	7.7	
Pepper	9.9	
Potatoes	10.9	New York Mercantile Exchange.
Rubber	12.3	
Shorts	14.4	
Soybeans	33.3	
Sugar	4.1	
Soybean meal	5.5	
Wool	10.3	
Wool tops	9.1	

[1] Based on closing prices as of Dec. 1, 1947.

Mr. MEHL. There is a great variation there. It runs from $33\frac{1}{3}$ percent in the case of grain down to 4.1 percent in the case of sugar, and in the case of coffee, 3.4 percent. There is also a variation—Mr. Brown, you will be interested in this—there is also a variation in the rate of margins between the cotton exchanges.

Mr. BROWN. This is a regulation you have placed in the record?

Mr. MEHL. No, this is a table showing the percentage of margin rates that are in effect with respect to different commodities on different exchanges.

Mr. BROWN. I see.

Mr. MEHL. And I was about to point out that on the New York Cotton Exchange, at the present time, the margin is 19.4 percent of the price, and in New Orleans it is 13.9 percent, and on the Chicago Board of Trade, 11.8 percent. So that there is not uniformity between the various exchanges at the moment.

Mr. BANTA. Mr. Spence, will you yield for a question?

Mr. BROWN. Will you pardon me?

Do you propose to correct that, or do you propose to leave it with the different exchanges to set different margins?

Mr. MEHL. I would want to take a look at the situation in New Orleans as compared with New York. At the moment I feel that the New York rate is more realistic and a safer rate than the one that is in effect in Chicago, certainly, and possibly New Orleans.

Mr. BOGGS. What is the rate in New Orleans?

Mr. MEHL. In New Orleans it is 5 cents a pound, which is on the basis of prices December 1, 13.9 percent of the price.

Mr. BOGGS. What is it in New York?

Mr. MEHL. In New York it is 8 cents per pound, or 19.4 percent of the price.

Mr. BOGGS. What in Chicago?

Mr. MEHL. Chicago is 4 cents a pound, or 11.8 percent of the price. You see, New York just recently raised its rates—on December 1—and New Orleans and Chicago did not go along with that increase.

Mr. BOGGS. Are they not generally uniform?

Mr. MEHL. Yes, over the years, they have been, I think, exactly the same, or practically the same. Chicago may have been less.

Mr. SPENCE. What are the commodities handled by the exchanges?

Mr. MEHL. That comes under the Commodity Exchange Act?

Mr. SPENCE. Yes.

Mr. MEHL. Wheat, corn, oats, rye, barley, flaxseed, bran, shorts, middlings, cotton, butter, eggs, potatoes, wool tops, cottonseed meal, cottonseed oil, lard, soybeans, soybean meal, soybean oil, and grain sorghums. The act does not at the present time cover coffee, cocoa, sugar, pepper, hides, rubber, or——

Mr. GAMBLE. Those last that you just mentioned, which you say the act does not cover, they are traded in, are they not?

Mr. MEHL. Oh, yes.

Mr. GAMBLE. Are they traded in like the odd-lot transactions in New York, or do they just simply trade them, though they are not listed?

Mr. MEHL. They are not subject to regulation at all under the Commodity Exchange Act. They would be, under this proposal, brought under the act with respect to margin requirements.

Mr. GAMBLE. Then, suppose you include them in your act, and somebody discovers some other commodity which they want to trade in and which is not covered. Have you a provision that you can cover anything that ultimately comes under the exchange commissions?

Mr. MEHL. All agricultural commodities would be covered, yes, for this specific purpose of giving the Secretary power to fix margins.

Mr. GAMBLE. Would you mind repeating that, sir?

Mr. MEHL. Well, all agricultural commodities that would be traded in for future delivery would be brought under the Commodity Exchange Act, as I understand it, temporarily and during the emergency, with respect to margins only. Now, that is not quite correct, because under the act, the customers' money must be segregated, must not be used for any purpose except for the benefit of that customer, and that same protection would be extended to these other commodities when they came under the act.

Mr. GAMBLE. Do you consider rubber an agricultural product?

Mr. MEHL. I don't know what it is. I am not a production expert.

Mr. GAMBLE. I am not trying to be technical. I just wondered if it was an agricultural product, and if you defined all agricultural products, if that would be inclusive of rubber. I do not know. I am merely asking for information.

Mr. MEHL. It may be that the solicitor's office, which is represented here, would have some notion of that. I do not know whether it is classified as an agricultural commodity or not.

Mr. SUNDSTROM. Synthetic rubber is certainly not agricultural, is it?

Mr. MEHL. Well, that comes out of the ground.

Mr. GAMBLE. Well, if it is a catch-all situation, I am just wondering whether "agricultural products" would include rubber. Because there is speculation in rubber futures, is there not?

Mr. MEHL. I am advised by the representative of the solicitor's office that that is the intention, to cover commodities, including rubber.

Mr. BROWN. Under your proposed bill the stock exchanges would not have any discretion in the fixing of margins, is that correct?

Mr. MEHL. Margins on securities transactions, I believe, are fixed by the Federal Reserve Board.

Mr. SUNDSTROM. But if we gave the Commodity Exchange Authority the power to fix margins would you intend for them to have the power to fix minimum margins, or would you give them full power by which they could completely wash out all margins, if they so desired?

Mr. MEHL. Well, it would be the power to establish minimum margins; in other words, it would be unlawful to accept trades at rates lower than those fixed.

Mr. SUNDSTROM. Do you anticipate that they might, at some time, say that there should be no margin trading at all?

Mr. MEHL. I can't imagine such a thing. I suppose it would be possible, by fixing margins at 100 percent, to restrict the market very materially; yes, sir.

Mr. SUNDSTROM. Well, are you not going to run into somewhat the same situation we have under the Federal Reserve System in the fixing of stock exchange margins? They can, at their own discretion, change them at any time they so desire, and therefore the man who is trying to protect himself, in a legitimate manner, against the future, can never know, from one day to the other, whether he is going to be able to carry the commodities on margin or whether he is going to have to put up 100 percent.

Mr. MEHL. I might point out that there is a sharp distinction between trading in futures and margins on stocks. The Federal Reserve Board has a credit interest in that.

Mr. SUNDSTROM. I know that. You do not need to tell me that. But I am just saying that if you give them the full power they can stop margin trading or put margins up to a point where one would not know from day to day what the requirements were going to be.

Mr. MEHL. One thing is to do that, and another thing is to establish minima. If I may finish with the discussion of a distinction which I think is important, it is that the purpose of margins, so far as this proposed bill is concerned, would be simply to curb excessive speculation, not to prohibit speculation.

Mr. SUNDSTROM. Then why would it not be proper to have the Department, or somebody for the Department, decide what they thought the maximum margin requirement ought to be, and say that the Commodity Exchange Authority has the power to fix margins up to—and then fix the percentage, instead of letting them go as far as they wish? In other words, put a ceiling on the margin they could require.

Mr. MEHL. The only thing against it is that the Department has taken the position that it ought to have the power to fix margins up to 100 percent. The only objection to it that I can see would be that you might want to fix margins at one rate for one commodity in a certain period——

Mr. SUNDSTROM. That is all right; you could fix the margins separately, as minima. But the trouble with the Government fixing margins is that a man who makes a commitment today doesn't know what the rules are going to be next week. It puts him in a position where he doesn't know what to do.

Mr. MEHL. You understand, of course, that this 33⅓-percent margin which was put on by the exchanges did not apply to existing accounts. It only applied to new accounts.

Mr. SUNDSTROM. Yes; but over a period of time those futures run out, and then they all become new accounts.

Mr. MEHL. Yes.

Mr. SUNDSTOM. I just wonder if you couud not fix some percentage, be it 33⅓ percent, 30 percent, or 45 percent, I don't care what, but at least let the people know just how far the Government can go, and not leave it so that they will not know what the rules are going to be next week or next month. We have that difficulty with the Federal Reserve System at the present time. We do not know if they are going to make the margin 75 percent, or 50 percent, or 100 percent.

Mr. MEHL. Well, the Secretary has indicated that we think the maximum that would have to be imposed with respect to grains, say, would be 50 percent, but inasmuch as the Secretary and the Department have requested authority to fix them at whatever they see fit, I would not want to take another position without consulting with the Secretary.

Mr. SUNDSTROM. I would like to have you consult with him and see whether he has any objection to it. Why give him the authority to fix margins at 100 percent if he thinks authority to fix them at 50 percent is all he is going to need? At least the man who is buying futures would be less worried because of the lesser spread.

Mr. MEHL. I will be glad to consult with the Secretary on that point.

The CHAIRMAN. Are there any further questions?

Mr. KUNKEL. I would like to ask a question.

The CHAIRMAN. Mr. Kunkel.

Mr. KUNKEL. You stated earlier that the 33⅓ percent was actually agreed to and imposed about 1 month after you first requested it. Is that correct?

Mr. MEHL. I think I requested it on September 15; it was not quite a month; it became effective October 6.

Mr. KUNKEL. And you feel that the 33⅓-percent margin has worked well to date, and does not need to be changed insofar as present conditions are concerned? In other words, if you had the power, and if you had to make the decision, you would not increase that margin today?

Mr. MEHL. I think not, sir. No, sir. And I would go a step further and say that it is something that I would want to watch very closely; there might also come a time when we would want to lower the margin.

Mr. KUNKEL. Of course, when you put in this margin, in October, it undoubtedly had some effect in causing liquidation of accounts already entered into, did it not? Even though it did not apply to them in terms, yet it would have that effect, naturally, would it not?

Mr. MEHL. There was a slight reduction in the figures on open contracts; yes, it might have a tendency to cause those who were in the market to liquidate.

Mr. KUNKEL. Then the only time during which there could have been any rise in prices caused by speculation, which you would have curbed had you had more authority than you have, would have been between the September and October dates which you have previously mentioned; is that correct?

Mr. MEHL. No; I requested an increase to 25 percent in March. The exchanges went along with that for a time, but in May they abandoned that 25-percent margin. I think that I probably would have continued the 25-percent margin, and if that had been continued through May and through September, it might not have been necessary to ask for as much as a 33⅓-percent margin. I don't know. That is just conjecture

Mr. KUNKEL. From your testimony, it seems to me that the net effect of speculation, to date on prices, has been about the same as it would have been had you had this authority. In any event, the margin of difference is relatively small because you had imposed the margin you thought necessary from March until May, and then in October you again had the margin which you thought necessary, and all the time there was the knowledge hanging over the market that there would be some action along these lines.

Mr. MEHL. I think it had an effect.

Mr. KUNKEL. It had an effect. Therefore the actual rise due to speculation has been relatively small compared to the rise generated by the actual buying demand?

Mr. MEHL. Let me put it this way: I think the imposition of the 33⅓-percent margin did curb the speculative movement.

Mr. BANTA. Will the gentleman yield?

Mr. KUNKEL. Yes.

Mr. BANTA. I would like to know what that did to the price; what was the effect on the price trend, before and after?

Mr. MEHL. The price trend was upward, and it continued so after the margins were increased.

Mr. BANTA. It continued upward after the margins were increased?

Mr. MEHL. Yes, sir.

Mr. KUNKEL. Of course every speculating buyer is a potential seller, is he not?

Mr. MEHL. Yes, sir.

Mr. KUNKEL. That is all.

The CHAIRMAN. Thank you, Mr. Mehl. I am sorry we cannot spend more time on this subject this morning, but the members of the committee must go to the floor of the House, which convenes at 11 o'clock.

The committee will recess to reconvene at 10 o'clock tomorrow morning, when we will have with us Mr. Foley for a discussion of title VI.

(Whereupon, at 11 a. m., the committee recessed to reconvene at 10 a. m. on Wednesday, December 10, 1947.)

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